



June 12, 1986

Dear Holder of Common Shares or Series D Second Preferred Shares:

We cordially invite you to attend a Special Meeting of holders of Common Shares or a Special Meeting of holders of Series D Second Preferred Shares (depending upon which class of shares you own) to be held on July 4, 1986 in Toronto. Both Special Meetings will be held in the Knightsbridge Room, King Edward Hotel, 37 King Street East, Toronto, Ontario, Canada with the Special Meeting of holders of Common Shares commencing at 10:00 a.m. and the Special Meeting of holders of Series D Second Preferred Shares commencing at 10:15 a.m.

The Special Meetings have been called for the purpose of approving amendments to the Articles of Genstar Corporation which would have the effect of deleting the conversion privilege attaching to the Series D Second Preferred Shares and requiring the redemption of all outstanding Series D Second Preferred Shares on July 31, 1986 at a price per share of \$44.61538 plus accrued and unpaid dividends. The proposed redemption price of \$44.61538 is based on the \$58.00 price offered by Imasco Enterprises Inc., a wholly-owned subsidiary of Imasco Limited, under its currently outstanding offer to purchase Genstar Common Shares. The \$44.61538 amount was determined by dividing the \$58.00 Imasco offer price by 1.3, which is the present Series D Second Preferred Share conversion factor.

The proposed amendments and the previously announced redemption of the Series A, B and D Preferred Shares and the Series B Second Preferred Shares to become effective on June 30, 1986 are part of the reorganization of the outstanding share capital of Genstar following the acquisition by Imasco of control of Genstar. Imasco has stated its intention to compulsorily acquire the Common Shares which have not been deposited under the offer and the amendments will delete the right of holders of Series D Second Preferred Shares of Genstar to convert such shares into Common Shares.

The proposed amendments are described in detail in the attached Notices of Special Meeting and Proxy Statement. We suggest that you read this document carefully.

If you cannot attend the relevant Special Meeting and vote in person, please mark, sign and return the enclosed proxy in the envelope provided. This will ensure that your shares will be represented at the relevant meeting. We urge that you do this promptly.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Ross J. Turner".

Ross J. Turner,
Chairman and Chief
Executive Officer

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Angus MacNaughton".

Angus A. MacNaughton,
President and Chief
Executive Officer



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**NOTICE OF SPECIAL MEETING OF HOLDERS OF SERIES D
SECOND PREFERRED SHARES**

NOTICE IS HEREBY GIVEN that a Special Meeting of the holders of Series D Second Preferred Shares (the "Series D Holders") of GENSTAR CORPORATION ("Genstar") will be held in the Knightsbridge Room, King Edward Hotel, 37 King Street East, Toronto, Ontario, Canada, on July 4, 1986 at the hour of 10:15 o'clock in the forenoon (Toronto time) for the purposes of:

(a) considering and, if thought fit, passing a special resolution amending the Articles of Genstar so as to effect the following changes in the rights, privileges, restrictions and conditions attaching to the Series D Second Preferred Shares:

(i) requiring Genstar to redeem the Series D Second Preferred Shares at the close of business in Vancouver on July 31, 1986;

(ii) changing the redemption price per share of the Series D Second Preferred Shares from \$25.00 to \$44.61538, in each case plus accrued and unpaid dividends; and

(iii) deleting the right of a Series D Holder to convert such shares into Common Shares of Genstar, effective immediately prior to the close of business in Vancouver on July 31, 1986; and

(b) transacting such other business, if any, as may be brought properly before the meeting.

The text of the special resolution to be submitted to the Special Meeting of Series D Holders is set out in Schedule "A" to the attached Proxy Statement.

A Series D Holder is entitled to dissent from the special resolution and be paid the fair value of his, her or its shares in accordance with Section 184 of the Canada Business Corporations Act. A statement as to the rights of a dissenting shareholder is set out in the attached Proxy Statement under "Right of Dissent of Holders of Series D Second Preferred Shares".

Registered Series D Holders (i) who are individuals may attend and vote at the meeting in person or by proxy and (ii) which are corporations may attend and vote at the meeting by proxy or by a duly authorized representative.

Dated at Vancouver, British Columbia, this 12th day of June, 1986.

By Order of the Board of Directors

Rodrick K. MacKinnon
Secretary

Series D Holders who are unable to attend the meeting in person are invited to complete and sign the accompanying form of proxy, to be returned at their earliest convenience to Genstar, care of The Canada Trust Company, Corporate Trust Department, Fifth Floor, 20 Eglinton Avenue West, Toronto, Ontario, Canada M4R 2E2, in the envelope provided for that purpose.

The Notice of Special Meeting, accompanied by the form of proxy and Proxy Statement, will be forwarded to registered Series D Holders of Genstar on or about June 12, 1986. Each Series D Holder is entitled to one vote at the meeting for each Series D Second Preferred Share registered in his, her or its name except that a transferee of Series D Second Preferred Shares shall be entitled to vote at the meeting if the transferee produces properly endorsed certificates for such shares, or otherwise establishes that the transferee owns such shares. Additional copies of this Notice of Special Meeting and of all the other material mentioned may be obtained at the Registered Office of Genstar at 1177 West Hastings Street, Suite 2600, Vancouver, B.C., Canada V6E 3Y3, at Genstar's Executive Office at Four Embarcadero Center, Suite 3800, San Francisco, California 94111, or at the offices of The Canada Trust Company at either of the following addresses:

Corporate Trust Department
P.O. Box 49390 Bentall Postal Station
1055 Dunsmuir Street
Vancouver, B.C. Canada V7X 1P3, or

Corporate Services Department
Fourth Floor
20 Eglinton Avenue West
Toronto, Canada M4R 2E2

Unless otherwise indicated, all dollar amounts referred to in the accompanying Proxy Statement are in Canadian dollars. The exchange rate was U.S. \$1.00 = Canadian \$1.40 as at December 31, 1985.



NOTICE OF SPECIAL MEETING OF HOLDERS OF COMMON SHARES

NOTICE IS HEREBY GIVEN that a Special Meeting of holders of Common Shares of GENSTAR CORPORATION ("Genstar") will be held in the Knightsbridge Room, King Edward Hotel, 37 King Street East, Toronto, Ontario, Canada, on July 4, 1986 at the hour of 10:00 o'clock in the forenoon (Toronto time) for the purposes of:

(a) considering and, if thought fit, passing a special resolution amending the Articles of Genstar so as to effect the following changes in the rights, privileges, restrictions and conditions attaching to the Series D Second Preferred Shares:

(i) requiring Genstar to redeem the Series D Second Preferred Shares at the close of business in Vancouver on July 31, 1986;

(ii) changing the redemption price per share of the Series D Second Preferred Shares from \$25.00 to \$44.61538, in each case plus accrued and unpaid dividends; and

(iii) deleting the right of a holder of Series D Second Preferred Shares to convert such shares into Common Shares of Genstar, effective immediately prior to the close of business in Vancouver on July 31, 1986; and

(b) transacting such other business, if any, as may be brought properly before the meeting.

The text of the special resolution to be submitted to the Special Meeting of holders of Common Shares is set out in Schedule "A" to the attached Proxy Statement.

Registered shareholders (i) who are individuals may attend and vote at the meeting in person or by proxy and (ii) which are corporations may attend and vote at the meeting by proxy or by a duly authorized representative. Holders of bearer share warrants may attend and vote at the meeting in person upon presentation thereof of their bearer share warrants or voting certificates in respect thereof or by proxy pursuant to any such voting certificates.

DATED at Vancouver, British Columbia, this 12th day of June, 1986.

By Order of the Board of Directors

Rodrick K. MacKinnon
Secretary

Holders of Common Shares who are unable to attend the meeting in person are invited to complete and sign the accompanying form of proxy, to be returned at their earliest convenience to Genstar, care of The Canada Trust Company, Corporate Trust Department, Fifth Floor, 20 Eglinton Avenue West, Toronto, Ontario, Canada M4R 2E2, in the envelope provided for that purpose.

The Notice of Meeting, accompanied by the form of proxy and Proxy Statement, will be forwarded to registered holders of Common Shares of Genstar on or about June 12, 1986. Each holder of Common Shares is entitled to one vote at the meeting for each Common Share registered in his, her or its name except that a transferee of Common Shares shall be entitled to vote at the meeting if the transferee produces properly endorsed certificates for such shares, or otherwise establishes that the transferee owns such shares. In addition, holders of bearer share warrants who produce their share warrants at the meeting, or who shall have deposited the same and obtained a voting certificate in respect thereof in accordance with the conditions attaching to such bearer share warrants, shall be entitled to one vote at the meeting for each Common Share represented by such bearer share warrants. Additional copies of this Notice of Special Meeting and of all the other material mentioned may be obtained at the Registered Office of Genstar at 1177 West Hastings Street, Suite 2600, Vancouver, B.C., Canada V6E 3Y3, at Genstar's Executive Office at Four Embarcadero Center, Suite 3800, San Francisco, California 94111, or at any of the offices of the depositaries listed under the caption "Information For Holders Of Outstanding Shares Represented By Bearer Share Warrants."

INFORMATION FOR HOLDERS OF OUTSTANDING SHARES REPRESENTED BY BEARER SHARE WARRANTS

The directors of Genstar have appointed the following depositaries for the purpose of receiving, not later than 48 hours prior to the meeting, deposits of bearer share warrants and of issuing to any depositor a receipt therefor and a voting certificate entitling such depositor to attend and vote at the meeting in person or by proxy, namely:

THE CANADA TRUST COMPANY

Corporate Trust Department
P.O. Box 49390 Bentall Postal Station
1055 Dunsmuir Street
Vancouver, B.C. Canada V7X 1P3, or

Corporate Services Department
Fourth Floor
20 Eglinton Avenue West
Toronto, Canada M4R 2E2, or

**MORGAN GUARANTY TRUST
COMPANY OF NEW YORK**

Client Administration, Ninth Floor
30 West Broadway
New York, N.Y. 10007, U.S.A., or

GÉNÉRALE DE BANQUE S.A.

3, rue Montagne du Parc
B-1000 Brussels, Belgium, or

**BANQUE GÉNÉRALE DU
LUXEMBOURG**

27 avenue Monterey
Luxembourg, or

CRÉDIT SUISSE

Paradeplatz 8
8021 Zurich, Switzerland

Unless otherwise indicated, all dollar amounts referred to in the accompanying Proxy Statement are in Canadian dollars. The exchange rate was U.S. \$1.00 = Canadian \$1.40 as at December 31, 1985.

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PROXY STATEMENT

SOLICITATION OF PROXIES

The accompanying proxy is being solicited by the Board of Directors and management of Genstar Corporation (herein referred to as "Genstar" or the "Corporation") for use at separate Special Meetings of Common Shareholders and Series D Second Preferred Shareholders of Genstar to be held on July 4, 1986 at the time, place and for the purposes set forth in the foregoing Notices of Special Meeting, and any adjournment thereof. The total cost of such solicitation will be borne by Genstar. Genstar has engaged the services of McLeod Young Weir Limited ("MYW") to solicit proxies from holders of Series D Second Preferred Shares on behalf of the directors and management of Genstar in Canada and elsewhere outside the United States, its territories and possessions. In consideration of such services, MYW will receive fees aggregating \$25,000. Genstar has agreed to reimburse MYW for reasonable out-of-pocket expenses, including legal costs, incurred by it in connection with the solicitation and has also agreed to indemnify MYW in respect of certain liabilities which may be incurred by it in performing its services. The solicitation of proxies will be primarily made or effected by mail, telephone, telex or personal contact by MYW. Directors, officers and regular employees of Genstar also may solicit proxies at nominal cost by telephone, telegram or by personal interview. Upon request, Genstar will reimburse banks, brokerage houses and other custodians, nominees and fiduciaries for their reasonable expenses in forwarding proxy material to their principals. The executive office of Genstar is located at Suite 3800, Four Embarcadero Center, San Francisco, California 94111, U.S.A.

APPOINTMENT AND REVOCATION OF PROXIES

Each holder of Common Shares or Series D Second Preferred Shares (together, the "Shares") is entitled to one vote at the relevant Special Meeting for each Share registered in his, her or its name as at the close of business on the day immediately preceding the day of the giving of the Notice of Meeting (the "Determination Date"), except that a transferee of Shares acquired on or after the Determination Date shall be entitled to vote at the meeting if the transferee produces properly endorsed certificates for such Shares, or otherwise establishes that the transferee owns such Shares, and has demanded not later than ten (10) days before the meeting that his, her or its name be included in the list of shareholders entitled to vote at the meeting, such list having been prepared as of the Determination Date. Holders of Common Shares represented by bearer share warrants may attend and vote at the Special Meeting of holders of Common Shares if (a) they produce their bearer share warrants at the meeting, or (b) they deposit, not later than 48 hours prior to the meeting, their bearer share warrants at one of the offices of the depositaries listed under the caption "Information for Holders of Outstanding Shares Represented by Bearer Share Warrants" following the Notice of Special Meeting of holders of Common Shares with a statement setting out their names and addresses, and obtain in exchange appropriate receipts and voting certificates stating their names and addresses and the number of shares represented by the deposited bearer share warrants. Any holder of bearer share warrants receiving a voting certificate as aforesaid also shall be entitled to appoint a proxy to attend, act and vote for and on behalf of such holder at the meeting or any adjournment thereof.

The persons named in the accompanying forms of proxy are directors and/or officers of Genstar. Each registered shareholder has the right to appoint as proxy another person (who need not be a shareholder) to represent the shareholder at the meeting and may do so by inserting the name of such other person in the blank space provided for such purpose on the form of proxy, or by

completing another proper form of proxy. In addition to any other manner permitted by law, a shareholder who executes and returns the accompanying form of proxy has the power to revoke it, at any time before it is acted upon, by an instrument in writing executed by the shareholder or by his, her or its attorney duly authorized, and deposited either at Genstar's Registered Office at 1177 West Hastings Street, Suite 2600, Vancouver, British Columbia, Canada V6E 3Y3, on or before the day preceding the day of the meeting or adjournments thereof at which the proxy is to be used, or with the chairman of the meeting on the day of the meeting or adjournments thereof.

ACTION TO BE TAKEN UNDER THE PROXIES

Shares represented by properly executed proxies in the accompanying forms of proxy will be voted or withheld from voting in accordance with the instructions indicated thereon. If no contrary instruction is indicated, Shares represented by such proxies will be voted by the persons designated in the printed portion thereof in favour of the passage of the special resolution.

The enclosed forms of proxy confer discretionary authority upon the persons named therein with respect to amendments to matters identified in the Notices of Special Meeting and with respect to any other matters that may properly come before the meetings. As of the date of this Proxy Statement, the Board of Directors and management of Genstar know of no such other matters to be presented for action at the meetings. However, if any other matters which are not known to the Board of Directors and management should properly come before the meetings or any adjournment thereof, the Shares represented by the proxies will be voted on such matters in the discretion of the named proxyholders.

BUSINESS OF THE SPECIAL MEETINGS

The Special Meetings have been called for the purpose of considering and, if thought fit, approving amendments to the Articles of Genstar which would have the effect of deleting, effective immediately prior to the close of business in Vancouver on July 31, 1986, the right of holders of the Series D Second Preferred Shares of Genstar to convert such shares into Common Shares on the basis of 1.3 Series D Second Preferred Shares for one Common Share, and requiring Genstar to redeem all outstanding Series D Second Preferred Shares at the close of business in Vancouver on July 31, 1986 at a price per share of \$44.61538 plus accrued and unpaid dividends. At present, the Series D Second Preferred Shares may not be redeemed at the option of Genstar prior to September 30, 1994 or, at the option of the holder thereof, prior to March 31, 1990, and the redemption price per share is fixed at \$25.00 plus accrued and unpaid dividends. The proposed redemption price per share is the amount obtained when the price offered by Imasco Enterprises Inc. ("IE"), a wholly-owned subsidiary of Imasco Limited ("Imasco"), under its currently outstanding offer (the "Offer") to purchase Common Shares of Genstar at \$58.00 per Common Share is divided by the conversion ratio applicable to the Series D Second Preferred Shares. The Offer was made on March 24, 1986 and currently is scheduled to expire at midnight (Vancouver time) on July 3, 1986.

At the date the Offer was made, there were outstanding 3,998,700 Series D Second Preferred Shares. On June 6, 1986, there were outstanding 49,615 Series D Second Preferred Shares. Genstar believes that the Common Shares issued upon conversion of the 3,949,085 Series D Second Preferred Shares which have been converted during the course of the Offer were tendered in acceptance of the Offer and have been purchased and paid for by IE.

The amendments and the previously announced redemption of the Series A, B and D Preferred Shares and the Series B Second Preferred Shares to be effective on June 30, 1986 are part of the reorganization of the outstanding share capital of Genstar following the acquisition of control of Genstar by Imasco under the Offer. As stated in the Offer and assuming acceptance of the Offer by holders of not less than 90% of the Common Shares, it is the intention of Imasco, after the expiration

of the Offer, to compulsorily acquire the Common Shares held by holders who have not accepted the Offer.

If the amendments are approved, Genstar intends to promptly file Articles of Amendment and obtain a Certificate of Amendment giving effect to the special resolution, whereupon the Series D Second Preferred Shares will cease, effective immediately prior to the close of business in Vancouver on July 31, 1986, to be convertible into Common Shares and the Series D Second Preferred Shares will be redeemed at the close of business in Vancouver on July 31, 1986. If a Certificate of Amendment is obtained, Genstar will promptly issue a press release confirming the same and notify the holders of Series D Second Preferred Shares by first class prepaid mail.

The income tax consequences to a holder of Series D Second Preferred Shares resulting from the redemption of such shares may be significantly different than the income tax consequences resulting from the sale to IE under the Offer of Common Shares receivable upon conversion of the Series D Second Preferred Shares. Holders of Series D Second Preferred Shares are urged to consider such income tax consequences carefully. (See "Canadian Income Tax Consequences For Holders of Series D Second Preferred Shares").

Expenses of the transactions related to the amendments to Genstar's Articles will be limited to the costs of the solicitation of the accompanying proxies and the costs of the Special Meetings, and are not expected to exceed \$30,000.

The text of the special resolution to be submitted to each of the Special Meetings (the "Special Resolution") is set forth in Schedule "A" to this Proxy Statement.

QUORUM AND VOTES REQUIRED

The holders, present in person or by proxy, of at least a majority of the Common Shares entitled to be voted at the Special Meeting of holders of Common Shares constitute a quorum for such meeting. The holders, present in person or by proxy, of at least a majority of the Series D Second Preferred Shares entitled to be voted at the Special Meeting of holders of the Series D Second Preferred Shares constitute a quorum for such meeting. If a quorum is not present at the Special Meeting of the holders of Series D Second Preferred Shares within one-half hour after the time for which the meeting was called, the meeting will be adjourned to the same place on the date ten days after the date for which the meeting was called, at which time two or more persons holding Series D Second Preferred Shares or representing the holders of such shares by proxy will constitute a quorum.

The Special Resolution to approve the amendment to Genstar's Articles requires the affirmative vote of (i) not less than two-thirds of the votes cast by the holders of Series D Second Preferred Shares and (ii) not less than two-thirds of the votes cast by the holders of Common Shares.

Imasco, which directly and through IE, beneficially owns or exercises direction over more than 91% of the outstanding Common Shares, has indicated that it will vote such shares in favour of the Special Resolution at the Special Meeting of the holders of Common Shares thereby assuring passage of the Special Resolution at the Special Meeting of holders of Common Shares whether or not any Common Shares which are not owned by Imasco or its subsidiaries are voted in favour of its passage.

CANADIAN FEDERAL INCOME TAX CONSEQUENCES FOR HOLDERS OF SERIES D SECOND PREFERRED SHARES

The following is a summary of the principal consequences under the Income Tax Act (Canada) (the "Act") generally applicable to a holder of Series D Second Preferred Shares who holds such

shares as capital property. This summary is based upon and limited to the current provisions of the Act and the Regulations thereunder (the "Regulations"), the Notices of Ways and Means Motions tabled in the House of Commons on December 4, 1985 and on February 26, 1986 (the "Minimum Tax Proposals") and the current administrative practices of Revenue Canada, Taxation. This summary does not take into account tax legislation of countries other than Canada or any relevant provincial tax legislation which may vary from the federal tax legislation or considerations.

This summary is not intended to constitute legal or tax advice to any particular holder. Holders are advised to consult their own tax advisers as to the particular income tax consequences to them.

Amendment of Terms and Conditions and Subsequent Redemption

The tax consequences described below are materially different from and in many cases less favourable to a particular holder than those that would apply if the holder converted his shares into Common Shares of Genstar and tendered such shares to IE under the Offer. The principal consequences under the Act arising in the latter case are summarized under the heading "Conversion and Sale".

Holders Resident in Canada

(i) Amendment of Terms and Conditions

Under Revenue Canada's current administrative position it is probable that the amendment of the terms and conditions of a Series D Second Preferred Share would result in a disposition of such share by the holder. It is not clear whether Revenue Canada's administrative position is correct in law. In any event, even if a disposition is considered to result, the holder's proceeds of disposition would be deemed to be equal to the adjusted cost base to him of the Series D Second Preferred Share. As a result, no gain or loss will be realized by a holder of a Series D Second Preferred Share on the amendment of the terms and conditions thereof.

(ii) Deemed Dividend on Redemption

On the redemption of a Series D Second Preferred Share, the holder will be deemed to have received a dividend equal to an amount by which the amount paid on the redemption exceeds the paid-up capital of the share of \$25.00.

In the case of a holder who is an individual, the dividend will be included in computing his or her income and the gross up and dividend tax credit rules normally applicable to taxable dividends paid by taxable Canadian corporations will apply. However, the grossed-up amount of such dividend will not be included in computing the individual's entitlement to an annual deduction of up to \$1,000 for qualifying Canadian investment income.

In the case of a corporate holder, the deemed dividend will be included in computing its income and normally will be deductible in computing its taxable income. However, in the case of a holder who is a specified financial institution (as defined in the Act), such deemed dividend will only be deductible in computing its taxable income if either:

(i) the specified financial institution did not acquire the Series D Second Preferred Share in the ordinary course of the business carried on by it; or

(ii) the specified financial institution, either alone or together with persons with whom it does not deal at arm's length, does not receive (or is not deemed to receive as a beneficiary of a trust), in the aggregate, dividends in respect of more than 10% of the Series D Second Preferred Shares then issued and outstanding.

A holder which is a "private corporation" (as defined in the Act) or any other corporation controlled directly or indirectly by or for the benefit of an individual or a related group of individuals may be liable to pay a 25% refundable tax under Part IV of the Act on the deemed dividend.

It is possible that the dividend otherwise deemed to have been received by a corporate holder may be considered to be proceeds of disposition rather than a dividend if the dividend is deductible in computing the holder's taxable income. This will not be the case, however, if the deemed dividend is subject to the refundable tax under Part IV of the Act and such tax is not refunded as a consequence of the payment of a dividend to a corporation as part of a series of transactions or events that includes the redemption of the Series D Second Preferred Share. Corporate holders which are not so subject to Part IV tax on the deemed dividend should consult their own tax advisers in this regard.

(iii) Capital Gain or Loss on Redemption

On a redemption of a Series D Second Preferred Share, the holder will be considered to have disposed of the share for proceeds of disposition equal to the amount paid to him on the redemption less any portion of such payment which is deemed to be a dividend as described above. Consequently the holder will realize a capital gain (or a capital loss) upon such redemption equal to the amount by which his proceeds of disposition exceed (or are exceeded by) the adjusted cost base of the share to the holder. One-half of any such capital gain (a "taxable capital gain") will be included in computing the holder's income.

One-half of any capital loss realized by a holder may normally be deducted by the holder for the year of disposition or for the three preceding or any future years to the extent of taxable capital gains realized in those years. In the case of a holder that is a corporation, the amount of any capital loss otherwise determined may be reduced by the amount of dividends received on the share to the extent and under the circumstances prescribed in the Act. Analogous rules apply where the corporation is a member of a partnership or a beneficiary of a trust that owns Series D Second Preferred Shares.

Holders Not Resident in Canada

(i) Amendment of Terms and Conditions

Under Revenue Canada's current administrative position, it is probable that the amendment of the terms and conditions of a Series D Second Preferred Share would result in a disposition of such share by the holder. It is not clear whether Revenue Canada's administrative position is correct in law. In any event, even if a disposition is considered to result, the holder's proceeds of disposition would be deemed to be equal to the adjusted cost base to him of the Series D Second Preferred Share. As a result, no gain or loss will be realized by a holder not resident in Canada on the change in the terms and conditions of the Series D Second Preferred Shares.

(ii) Deemed Dividend on Redemption

On a redemption of a Series D Second Preferred Share, the holder will be deemed to have received a dividend equal to the amount by which the amount paid on the redemption of the share to him exceeds the paid-up capital of the share of \$25.00. Such deemed dividend will be subject to withholding tax under Part XIII of the Act. The basic rate of withholding tax is 25% which may be reduced under the terms of an applicable tax treaty, if any.

(iii) Capital Gain or Loss on Redemption

On a redemption of a Series D Second Preferred Share, the holder will be considered to have disposed of the share for proceeds of disposition equal to the paid-up capital of the share of \$25.00. As such, the holder may realize a capital gain or a capital loss. The holder will not be subject to tax under the Act in respect of any such capital gain unless his Series D Second Preferred Shares are "taxable Canadian property" (as defined in the Act). The definition of taxable Canadian property would include any Series D Second Preferred Shares held by a holder if at any time during the five-year period immediately preceding the redemption not less than 25% of the issued shares of any class or series of any class of shares of Genstar belonged to the holder, to persons with whom the holder did not deal at arm's length or to any combination thereof. This definition would also

include any Series D Second Preferred Shares held by a holder if the holder has used the shares in carrying on a business in Canada or if the holder is a non-resident insurer and the shares are used or held by it in the course of carrying on an insurance business in Canada.

Even if the Series D Second Preferred Share is taxable Canadian property to a particular holder, an exemption from tax under the Act may be available under the terms of an applicable tax treaty, if any.

Conversion and Sale

Holders Resident in Canada

The conversion of Series D Second Preferred Shares into Common Shares will be deemed not to be a disposition of property by the holder thereof and accordingly will not give rise to any taxable capital gain or allowable capital loss. The cost to a holder of Common Shares received on the conversion will be deemed to be his adjusted cost base immediately before the conversion of the Series D Second Preferred Shares converted into Common Shares. The adjusted cost base of such Common Shares to a holder immediately after such conversion will be determined by averaging the cost of the Common Shares received on the conversion with the adjusted cost base of all Common Shares acquired after 1971 and held at that time by him. Under the present assessing practice of Revenue Canada, Taxation, a holder of Series D Second Preferred Shares who upon conversion receives cash not in excess of \$200 in lieu of a fraction of a share may either include the gain or loss on the disposition of a fraction of a share in computing his income for the year of conversion, or alternatively, reduce the adjusted cost base of the Common Shares received on the conversion by the amount of cash received.

A holder resident in Canada who accepts the Offer in respect of any Common Shares will realize a capital gain (or a capital loss) upon the sale of each such Common Share (including a Common Share received upon conversion of Series D Second Preferred Shares) equal to the amount by which the purchase price under the Offer exceeds (or is exceeded by) the aggregate of the adjusted cost base to the holder of such Common Share and any costs of disposition. One-half of any such capital gain (a "taxable capital gain") will be included in computing the holder's income. In the case of a holder who is an individual, other than a trust, any taxable capital gain so realized may be eligible, within certain limits and subject to certain restrictions, for the lifetime capital gains exemption in computing taxable income. Under the phase-in rules, the cumulative lifetime limit for 1986 is \$25,000, where applicable. As a result of the Minimum Tax Proposals, any capital gains realized by an individual, whether or not eligible for the capital gain exemption, may be subject to the proposed alternative minimum federal tax.

One-half of any capital loss realized by a holder may normally be deducted by the holder for purposes of the Act for the year of disposition or for the three preceding or any future years, in accordance with the provisions of the Act, to the extent of taxable capital gains. In the case of a holder that is a corporation, the amount of any capital loss otherwise determined may be reduced by the amount of dividends received to the extent and under the circumstances prescribed in the Act; analogous rules apply where the corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares.

Holders Not Resident in Canada

The conversion of Series D Second Preferred Shares into Common Shares will be deemed not to be a disposition of property by the holder thereof. The cost and adjusted cost basis of such Common Shares will be determined in the same manner as described above for holders resident in Canada. A holder not resident in Canada who accepts the Offer will not be subject to tax under the Act unless the holder's Common Shares are "taxable Canadian property" (as defined in the Act). The definition of taxable Canadian property would include any Shares held by a holder if at any time during the five-year period immediately preceding the acceptance of the Offer, not less than 25% of

the issued shares of any class or series of any class of shares of Genstar belonged to the holder, to persons with whom the holder did not deal at arms' length or to any combination thereof. This definition would also include any Common Shares held by a holder if the holder has used the Common Shares in carrying on a business in Canada or if the holder is a non-resident insurer and the Common Shares are used or held by it in the course of carrying on an insurance business in Canada.

Even if the Common Shares are taxable Canadian property to a particular holder, an exemption from tax under the Act may be available under the terms of an applicable tax treaty, if any.

THE FEDERAL INCOME TAX CONSEQUENCES SET FORTH ABOVE ARE FOR GENERAL INFORMATION ONLY. EACH HOLDER OF SHARES IS URGED TO CONSULT HIS OWN TAX ADVISOR TO DETERMINE THE PARTICULAR TAX EFFECTS TO HIM, HER OR IT, INCLUDING THE APPLICATION AND EFFECT OF FEDERAL, PROVINCIAL, STATE, LOCAL AND OTHER TAX LAWS.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

As of June 6, 1986, the issued and outstanding Common Shares and Series D Second Preferred Shares of Genstar, each entitled to one vote per share, were as follows:

<u>Class and Series</u>	<u>Number Outstanding</u>
Second Preferred Shares	
Series D Floating Rate Cumulative Convertible Redeemable	49,615
Common Shares (including 3,033,729 shares represented by bearer share warrants)	44,229,866

On May 28, 1986, Genstar's Board of Directors called for the redemption of Genstar's Series A \$1.10 Cumulative Convertible Redeemable Preferred Shares (the "Series A Shares"), Series B \$1.20 Non-Cumulative Convertible Redeemable Preferred Shares (the "Series B Shares"), Series D \$1.50 Cumulative Convertible Redeemable Preferred Shares (the "Series D Shares") and Series B (U.S.) \$1.68 Cumulative Convertible Redeemable Second Preferred Shares (the "Series B Second Shares"). The date set for the redemption of all of such shares is June 30, 1986. As of June 1, 1986, there were outstanding 923 Series A Shares, 37,828 Series B Shares, 2,091 Series D Shares and 58,122 Series B Second Shares, all of which will have been redeemed prior to the July 4 Special Meetings.

Also outstanding are 1,000,000 Series A and 4,000,000 Series E Second Preferred Shares. The Series A Second Preferred Shares are entitled to one vote each upon the happening of certain events, none of which has occurred. In addition, upon the happening of certain events, none of which has occurred, the holders of the Series B, D and E Second Preferred Shares are entitled to elect as a class two directors of the Corporation.

As of June 1, 1986, Genstar's officers and directors beneficially owned less than 100 Common Shares constituting less than .00001% of the outstanding Common Shares.

Information as to the ownership of shares represented by bearer share warrants is not available to the Corporation. To the knowledge of the Corporation, as of June 6, 1986, there was no shareholder owning beneficially more than 5% of the Common Shares or more than 5% of the Series D Second Preferred Shares of the Corporation, including those voting shares represented by bearer share warrants, except as follows:

<u>Name and Address</u>	<u>Title of Class</u>	<u>Number of Shares Owned</u>	<u>Percentage of Class</u>
CDS & Co. c/o The Canadian Depository For Securities Limited Box 32 Stock Exchange Tower Toronto, Ontario M5X 1A9	Series D Sec- ond Preferred Shares	19,029	38.3
Levesque Beaubien Inc. 360 St. James St. West Montreal, Quebec H2Y 1P7	Series D Sec- ond Preferred Shares	7,300	14.7
Societe de Fiducie du Credit Foncier A/S de Service de Gestion de Fonds 612 rue Saint Jacques Montreal, Quebec H3C 1E1	Series D Sec- ond Preferred Shares	10,000	20.1
Imasco Enterprises Inc. 4 Westmount Square Montreal, Quebec H3Z 2S8	Common Shares ⁽¹⁾	40,646,710 ⁽²⁾	91.9

(1) On March 24, 1986, IE commenced an Offer to purchase for cash all of the outstanding Common Shares of Genstar for a purchase price of \$54 net per share. IE and Imasco are sometimes collectively referred to hereinafter as "Imasco". On April 2, 1986, Imasco and Genstar entered into an agreement (the "Imasco Agreement") pursuant to which (a) Imasco agreed to increase the amount of the purchase price under the Offer to \$58 per share payable either in cash or in cash and securities; (b) Genstar's Board of Directors agreed to recommend the Offer; (c) Genstar and Imasco entered into an employee relations agreement; and (d) Genstar agreed, during the term of the Offer, not to sell or dispose of any material assets, incur any indebtedness, amalgamate, merge or consolidate with another entity, or issue any capital stock, options and the like, and to continue to operate its business and assets in the ordinary course and in substantially the same manner as theretofore conducted. Imasco subsequently issued a Notice of Change to the Offer stating that IE would pay \$58 in cash for each of the Common Shares deposited and taken-up under the Offer. The Offer was scheduled to expire at 12:00 Midnight, Vancouver time, on Friday, April 25, 1986, unless extended. On April 25, 1986, Imasco announced that the Offer was extended until 12:00 Midnight, Vancouver time, on Friday, May 30, 1986. On May 30, 1986, Imasco announced that the Offer was extended until 12:00 Midnight, Vancouver time, on Thursday, July 3, 1986. Withdrawal rights under the Offer have expired.

(2) Includes Common Shares that Imasco has the right to acquire pursuant to separate option agreements, dated as of March 21, 1986 (the "Option Agreements"), with Societe Generale de Belgique S.A. ("SGB") and four affiliated companies (the "Option Shareholders"). Pursuant to the Option Agreements, the Option Shareholders have granted Imasco irrevocable options (the "Options") to purchase a total of 6,755,084 Common Shares (5,515,363 from SGB) at \$58 per share.

The Options may be exercised, in whole, at any time during the 45 day period beginning November 15, 1986, provided that all such Options are exercised on such date of exercise. The Options terminate with respect to Common Shares deposited by the Option Shareholders under the Offer and purchased by IE thereunder. In addition, the Option Shareholders have agreed not to, prior to the closing of the Option Agreements, (a) sell or agree to sell the Common Shares (other than to other Option Shareholders); (b) deposit the Common Shares into a voting trust or enter into a voting agreement or arrangement with respect to the Common Shares; or (c) solicit or encourage any party, other than Imasco, to acquire Genstar or Common Shares.

Imasco has advised Genstar that the number of Common Shares registered in its name on the transfer records of Genstar does not include Common Shares represented by bearer share warrants acquired under the Offer.

RIGHT OF DISSENT OF HOLDERS OF SERIES D SECOND PREFERRED SHARES

Pursuant to Section 184 of the Canada Business Corporations Act (the “CBCA”), a holder of Series D Second Preferred Shares (but not a holder of Common Shares) is entitled, as explained in more detail below, to send to Genstar a written objection (“Notice of Dissent”) to the Special Resolution set forth in Schedule “A”.

In addition to any other rights which such shareholder may have, upon the issuance of the Certificate of Amendment giving effect to the Special Resolution, a holder of Series D Second Preferred Shares who complies with the dissent procedures set forth in Section 184 is entitled to be paid by Genstar the fair value of such Series D Second Preferred Shares.

A shareholder may only claim under Section 184 with respect to all Series D Second Preferred Shares held by such shareholder on behalf of any one beneficial owner and which are registered in the name of the shareholder. A shareholder who wishes to invoke the provisions of Section 184 must send a Notice of Dissent to Genstar at or before the time fixed for the Special Meeting of the holders of Series D Second Preferred Shares. The filing of such Notice of Dissent does not deprive such shareholder of the right to vote on the Special Resolution. A vote against the Special Resolution does not by itself constitute a Notice of Dissent. Abstaining from voting or withholding a vote will not deprive a shareholder who has properly filed a Notice of Dissent of further rights pursuant to Section 184. A vote in favour of the Special Resolution will deprive a shareholder of further rights pursuant to Section 184. A summary of the procedure to be followed by a shareholder who wishes to exercise his, her or its right of dissent is set forth in Schedule “B”. It is recommended that shareholders who wish to pursue rights of dissent consult their own legal advisors with respect to the relevant statutory provisions.

FINANCIAL INFORMATION

Financial statements of Genstar, the Management’s discussion and analysis of the results of operations and the report of its independent accountants thereon together with supplementary financial information of Genstar are included in Genstar’s 1985 Annual Report and are incorporated herein by reference thereto. Genstar will make available a copy of the Annual Report to any shareholder who so requests at no cost to the shareholder.

OTHER INFORMATION

Stock Purchase and Other Plans with Financial Assistance Provisions

The Revised 1969 Stock Purchase Plan

Under the 1969 Stock Purchase Plan as revised (the “Revised 1969 Plan”), the Board of Directors or a committee thereof is authorized to issue up to 1,500,000 Common Shares to officers and employees of the Corporation and its subsidiaries. The price per share at which shares may be purchased is set at the time of grant, but in no event is less than 90% of the mean of the high and low selling prices of the Common Shares on The Toronto Stock Exchange on the last business day preceding the date of the resolution of the Directors authorizing the grant.

The Revised 1969 Plan provides that Genstar or any of its wholly-owned subsidiaries may lend to participants up to 99% of the purchase price at an interest rate of 5% per annum or any other rate authorized by the Board of Directors. The Revised 1969 Plan authorized the Directors to establish the terms for such loans, which must require the repayment of principal beginning not less than 30 months after the purchase date and the payment of installments aggregating not less than 17% of

the loan amount within nine years of the purchase date, with the balance due no later than on the 10th anniversary of the purchase date. See "Indebtedness of Management."

Under the Revised 1969 Plan, Common Shares which are subscribed for by a participant are to be held by the trustee under the 1969 Plan (the "Trustee") as collateral security for the participant's repayment of the principal and interest on the loan used to purchase the shares but can only be voted upon written instructions from the participant. In the event that a participant defaults in payment of any installment on any loan made pursuant to the Revised 1969 Plan or ceases to be an employee of Genstar, or becomes bankrupt, or upon the occurrence of certain other events, then the entire balance of the loan made to such participant becomes immediately due and payable, and the Trustee shall, upon Genstar's instructions, sell the Common Shares held for the benefit of the participant and apply the proceeds thereof to the participant's liabilities. If there is a deficiency, the Directors have the discretion to determine that the deficiency no longer constitutes a debt to the Corporation. The Trustee is The Canada Trust Company, a Genstar subsidiary, and may be replaced by the Directors.

While the benefits conferred by the 1969 Plan are substantially similar to those of the Revised 1969 Plan, the 1969 Plan was structured somewhat differently. Under the 1969 Plan, the trustees, who presently are the members of Genstar's Executive Remuneration Committee, acquired Common Shares of Genstar (with funds provided by Genstar) for subsequent purchase by participants at the same price paid by the trustees. As with the Revised 1969 Plan, loans to participants of up to 99% of the purchase price could be made, with the balance payable upon such terms and conditions as the trustees determined. All presently outstanding loans provide for payment of the balance within ten years, with interest at the rate of 5% per annum payable on the unpaid balance.

From January 1, 1985 to June 1, 1986, two officers of the Corporation purchased 2,100 Common Shares and 39 other employees of Genstar or its subsidiaries purchased 28,000 Common Shares under the Revised 1969 Plan at a price per share of \$30.30, and the Corporation made loans pursuant to the Revised 1969 Plan totalling \$902,909 to such officers and employees of the Corporation or its subsidiaries in connection with the purchase of such 30,100 shares under the Revised 1969 Plan. Pursuant to the Imasco Agreement, Genstar has agreed not to issue any additional shares under the Revised 1969 Plan.

The 1979 Stock Purchase Plan

Under the 1979 Stock Purchase Plan, the Board of Directors is authorized to designate one or more series of the Second Preferred Shares available under the 1979 Plan for sale to officers and key employees of Genstar and its subsidiaries for the purpose of providing recognition and incentive to these employees. Not more than 2,000,000 Second Preferred Shares (convertible into not more than 2,000,000 Common Shares) may be awarded under the 1979 Plan. The terms of the Second Preferred Shares are established by the Board of Directors. However, all shares are entitled to one vote, non-cumulative dividends, priority over Common Shares on liquidation and each share may be converted at any time for a period of ten years into Common Shares. No award may be granted under the 1979 Plan after May 1, 1989. The price per share at which an award may be granted is established at the time of grant but may not be less than 25% (assuming an initial formulated conversion rate of approximately one-quarter of a Common Share for each such Second Preferred Share) of the average per share selling price for board lots of Common Shares on the New York Stock Exchange on the business day preceding the date of the resolution of the Directors authorizing the grant. Within certain limits, based on prevailing market prices for Genstar's Common Shares, the Board may establish the conversion formula by designating particular series of shares to be issued under the 1979 Plan. With respect to all outstanding shares issued under the 1979 Plan, the maximum possible conversion ratio is one Second Preferred Share to two Common Shares. Such shares are not transferable except upon death.

Under the 1979 Plan, Genstar or any of its subsidiaries may lend to participants up to 99% of the purchase price of the Second Preferred Shares at an interest rate set by the Board of Directors or

pursuant to authority granted by the Board. Such loans are payable in annual installments, beginning two years after the purchase date, with installments aggregating 17% of the loan amount due nine years following the purchase date, and the balance due on the 10th anniversary of the purchase date. See "Indebtedness of Management."

Pursuant to amendments to the 1979 Plan adopted by the Board of Directors on September 22, 1982, all participants in the 1979 Plan are required to enter into agreements with Genstar subordinating, to the right of the holders of Genstar's Preferred Shares and other Second Preferred Shares, the participants' rights to receive in respect of the Second Preferred Shares issued under the 1979 Plan any payment or any property or assets in the event of liquidation, dissolution or winding-up of Genstar or other distribution of assets of Genstar among shareholders for the purpose of winding up its affairs.

During the period from January 1, 1985 to March 1, 1986, all officers and directors as a group purchased 80,150 SP-85 Shares under the 1979 Plan. Each SP-85 Share was convertible, on the date of issuance, into approximately one-half of a Common Share, and was issued at (U.S.) \$11.08 per share. From January 1, 1985 to June 1, 1986, the Corporation made loans pursuant to the 1979 Plan totalling (U.S.) \$879,181.38 to 18 officers, directors or employees of the Corporation or its subsidiaries in connection with the purchase of an aggregate of 80,150 SP-85 Shares under the 1979 Plan at an interest rate of 10% calculated semi-annually. Pursuant to the Imasco Agreement, Genstar has agreed not to issue any additional shares under the 1979 Plan.

Salaried Employee's Thrift Plan

Effective April 1, 1983, the Genstar Company Salaried Employee's Thrift Plan (the "Thrift Plan") was introduced for use by employees of the Corporation's U.S. subsidiaries. The Thrift Plan permits an employee to contribute from 3% to 10% of his or her regular earnings to an investment account, with the employer making a contribution of 25% of the employee's contribution, provided that the maximum employer contribution cannot exceed 1.5% of the employee's earnings. The combined contributions are invested in either a short term investment fund, a diversified equity fund, a Genstar Common Share fund or a combination of such funds, as chosen by the employee.

The employee's contribution is deducted from his or her taxable income and, until withdrawal, the earnings of the employer's and employee's combined contributions accumulate tax free, pursuant to Section 401(k) of the U.S. Internal Revenue Code. Except for hardship withdrawals and termination of the plan, payments may be made only upon the employee's retirement, death or termination of employment. Upon distribution of an employee's entire account, the distributed amount is generally taxable as ordinary income, but may be subject to the moderating effect of a 10-year forward averaging rule.

During the period from January 1, 1985 to June 1, 1986, the Corporation contributed (U.S.) \$22,557 for the accounts of all officers and directors as a group under the Thrift Plan. The Trustee under the Thrift Plan has tendered all Common Shares held by the Thrift Plan into the Offer.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Genstar provides liability insurance for its directors and officers in those capacities as well as for the directors and officers of many of its subsidiaries. The premium for the year 1985 was \$97,550, which premium cannot be readily allocated as between the officers and directors of Genstar and its subsidiaries. Such premium was paid by Genstar. The policy will pay 100% of the excess over \$1,000 (per director or officer, subject to a maximum deductible of \$1,000 per loss) for each loss to a maximum annual limit of \$100 million. Under the policy Genstar is insured against any loss arising out of any liability to indemnify a director or an officer. Individual directors and officers are insured against any loss arising out of any wrongful act, excluding criminal acts and those acts which result in personal profit. One of Genstar's major insurance carriers has notified Genstar that the directors and officers' insurance coverage provided by it will expire during July of 1986. Genstar

anticipates that its other subscribing insurers will serve Genstar with similar notices. Under the terms of the Imasco Agreement, Imasco is required to maintain liability insurance for Genstar's officers and directors on a basis comparable to existing policies for a period of three years subject to certain limitations.

INDEBTEDNESS OF MANAGEMENT

Genstar has made housing assistance loans to those officers who have relocated to the Corporation's executive office in San Francisco, California. These loans, secured by mortgages or promissory notes, are repayable with interest at 6% per annum over a period of ten years. Loans also were made to officers in connection with the relocation of the Corporation's Registered Office to Vancouver, British Columbia, and in connection with the exercise of rights under the 1969 Stock Purchase Plan, 1979 Stock Purchase Plan and the Management Stock Purchase Plan, some at no interest and others at interest from 5% to 10% per annum, depending on the plan and the time at which stock purchases were made by an officer. With respect to such housing assistance loans and indebtedness incurred in relation to such stock plans, the largest aggregate amount of indebtedness outstanding from January 1, 1985 to June 1, 1986 of the officers of the Corporation, namely Messrs. Angus A. MacNaughton, Ross J. Turner, J. Leonard Holman, George F. Michals, John A. West, Walter S. Bannister, J. Ernest Hartz, Jr., Paul J. Kehoe, Richard D. Paterson, John H. Chase, Arthur W. Falk, Robert D. MacLean, C.J. Byrne McNamara, Lorimer E. Whitworth, Paul T. Coté, Bryan W. Bennett, Rodrick K. MacKinnon, Hugh W. McAdams, Henri P. Lafleur and Robert A. McCully was \$1,897,397, \$1,897,397, \$404,829, \$387,203, \$351,119, \$312,691, \$80,815, \$319,823, \$207,753, \$40,016, \$122,639, \$55,529, \$26,865, \$67,106, \$23,552, \$5,435, \$29,977, \$184,717, \$58,125 and \$1,923, respectively, and the amount of indebtedness outstanding as of June 1, 1986 was \$178,125, \$178,125, \$92,500, \$84,375, \$165,750, \$78,750, \$ nil, \$170,000, \$ nil, \$ nil, \$ nil, \$ nil, \$ nil, \$ nil, \$ nil, \$ nil, \$ nil, \$68,089, \$56,464, and \$ nil, respectively (all U.S. dollars).

CERTAIN TRANSACTIONS

Mr. Volk, a director of Genstar, is a member of Shearman & Sterling, a law firm which Genstar has retained since 1969.

The Hon. P. Lougheed, a director of Genstar, is a member of Bennett Jones, a law firm which Genstar has retained from time to time.

Mr. H. Purdy Crawford, a director of Genstar, was, until 1985, a partner of Osler, Hoskin & Harcourt, a law firm which is retained by Imasco, Genstar's principal shareholder. Osler, Hoskin & Harcourt also from time to time have provided legal services to Genstar. Mr. Brian M. Levitt, a director of Genstar, is currently a partner of the same firm.

Genstar's senior executive officers have submitted a proposal for the purchase of certain businesses of the Corporation other than Canada Trustco Mortgage Company. The Board of Directors of Genstar has approved the payment by Genstar of reasonable costs to be incurred in connection therewith. These arrangements will not prevent consideration of other options relating to these businesses.

OTHER MATTERS

As of the date of mailing of this Proxy Statement to shareholders, the Board of Directors and management of Genstar know of no amendment or variation of the matters referred to in the Notices of Special Meeting. However, if any such amendment or variation or other business should be brought properly before one of the meetings, the relevant accompanying form of proxy confers discretionary authority upon the persons named therein to vote upon any such amendment or variation of the matters referred to in the Notices of Special Meeting or on such other business in accordance with their discretion.

The contents of this Proxy Statement and the sending thereof have been approved by the directors of Genstar.

Dated at Vancouver, British Columbia, Canada as of June 12, 1986.

Rodrick K. MacKinnon
Secretary

SCHEDULE "A"

TEXT OF SPECIAL RESOLUTION AMENDING THE ARTICLES OF GENSTAR CORPORATION

BE IT RESOLVED as a Special Resolution that:

A. The Articles of Genstar Corporation ("Genstar") are hereby amended to change the rights, privileges, restrictions and conditions attaching to the Series D Second Preferred Shares (the "Series D Provisions") as follows:

1. Section 2.10.6 of the Series D Provisions is deleted and the following substituted therefor:

"2.10.6. Redemption.

2.10.6.1. Subject to paragraph 2.10.12 of these provisions, the Corporation shall, at the close of business in Vancouver on July 31, 1986, redeem all the then outstanding Series D Second Preferred Shares on payment of \$44.61538 for each share to be redeemed, together in each case with all accrued and unpaid dividends thereon (which for such purpose shall be calculated as if such dividends, to the extent then unpaid, were accruing for the period from the last Dividend Payment Date on which dividends were paid in full, up to but not including the date of such redemption)."

2. Section 2.10.7 of the Series D Provisions is deleted and the following substituted therefor:

"2.10.7. Redemption Procedure.

2.10.7.1. Each Series D Second Preferred Share shall be automatically redeemed by the Corporation at the close of business in Vancouver on July 31, 1986, without the requirement for giving notice to the holders of Series D Second Preferred Shares to be so redeemed; on, and after, the date so specified for redemption, the Corporation shall pay or cause to be paid to or to the order of the holders of the Series D Second Preferred Shares to be redeemed the redemption price on presentation and surrender at the registered office of the Corporation or the offices of the transfer agent of certificates representing Series D Second Preferred Shares; such payment shall be made by cheque payable at par at any branch of the Corporation's bankers in Canada; and from and after the close of business in Vancouver on July 31, 1986, the Series D Second Preferred Shares shall cease to be entitled to dividends and the holders thereof shall not be entitled to exercise any of the rights of shareholders in respect thereof unless payment of the redemption price shall not be made upon presentation and surrender of certificates in accordance with the foregoing provisions, in which case the rights of the holders shall remain unaffected."

3. Paragraph 2.10.10.4 of the Series D Provisions is deleted. The balance of Section 2.10.10 of the Series D Provisions is deleted effective immediately prior to the close of business in Vancouver on July 31, 1986.

B. The Corporation is hereby authorized to apply for a Certificate of Amendment under the Canada Business Corporations Act amending its Articles as set forth above and any director or any officer of the Corporation is hereby authorized to sign and deliver for and on behalf of the Corporation all such notices, documents and instruments, including Articles of Amendment, and to do such other acts and things as may be considered necessary or desirable to give effect to the foregoing.

C. Notwithstanding the foregoing, the Board of Directors of the Corporation may, without further approval of the shareholders of the Corporation, revoke this Special Resolution at any time before the Certificate of Amendment in respect of this Special Resolution becomes effective.

SCHEDULE “B”

RIGHT OF DISSENT OF HOLDERS OF SERIES D SECOND PREFERRED SHARES

A Shareholder who has sent a written objection to Genstar (“Notice of Dissent”) no later than the termination of the Special Meeting of holders of Series D Second Preferred Shares and who has not voted for the Special Resolution, may exercise the statutory right of dissent, by conforming to the procedures set forth in Section 184 of the CBCA. The provisions of Section 184 are summarized below.

Within ten (10) days following the adoption of the Special Resolution by shareholders, Genstar is required to notify in writing each shareholder (a “Dissenting Shareholder”) who has duly filed a Notice of Dissent and has neither voted for the Special Resolution nor withdrawn his, her or its objection that the Special Resolution has been adopted. A Dissenting Shareholder must, within twenty (20) days after receiving notice of adoption of the Special Resolution, or, if he, she or it does not receive such notice, within twenty (20) days after such shareholder learns that the Special Resolution has been adopted, send to Genstar a written notice (the “Demand for Payment”) containing the Dissenting Shareholders’ name and address, the number of Series D Second Preferred Shares of Genstar in respect of which the shareholder dissents (the “Dissenting Shares”) and a demand for payment of the fair value of such Dissenting Shares. Within thirty (30) days of the sending of the Demand for Payment, the Dissenting Shareholder must send the certificates representing the Dissenting Shares to Genstar or to Genstar’s transfer agent, The Canada Trust Company. Genstar or the transfer agent will endorse on the share certificates representing the Dissenting Shares a notice that the holder thereof is a Dissenting Shareholder and will forthwith return such share certificates to the Dissenting Shareholder. If the Dissenting Shareholder fails to send such certificates, such shareholder forfeits the right to make a claim under Section 184.

On sending a Demand for Payment to Genstar, a Dissenting Shareholder ceases to have any rights as a holder of Series D Second Preferred Shares of Genstar except the right to be paid the fair value of the Dissenting Shares, unless:

- (i) the Dissenting Shareholder withdraws the Demand for Payment before Genstar makes a written offer to pay (the “Offer to Pay”),
- (ii) Genstar fails to send a timely Offer to Pay to the Dissenting Shareholder and the Dissenting Shareholder withdraws the Demand for Payment, or
- (iii) the directors of Genstar revoke the Special Resolution, in which case the Dissenting Shareholder’s rights as a holder of Series D Second Preferred Shares of Genstar are reinstated as of the date of transmission of the Demand for Payment.

Not later than seven (7) days following the later of the date (the “Effective Date”) of the Certificate of Amendment giving effect to the Special Resolution or the date on which Genstar received a Demand for Payment, Genstar must send to each Dissenting Shareholder who has sent a Demand for Payment an Offer to Pay for the Dissenting Shares held by such shareholder an amount considered by the Board of Directors of Genstar to be fair value thereof accompanied by a statement showing the manner of determination of such fair value. Every Offer to Pay for Dissenting Shares must be on the same terms. The amount specified in an Offer to Pay accepted by a Dissenting Shareholder must be paid by Genstar within ten (10) days of the acceptance thereof but any Offer to Pay will lapse if Genstar does not receive an acceptance thereof within thirty (30) days after making such an Offer to Pay.

If an Offer to Pay is not made by Genstar or if a Dissenting Shareholder fails to accept an Offer to Pay, Genstar may, within fifty (50) days after the Effective Date or within such further period as a court may allow, apply to a court to fix a fair value for the Dissenting Shares of any Dissenting Shareholder. If Genstar fails to so apply to a court, a Dissenting Shareholder may apply to a court

for the same purpose within a further period of twenty (20) days or within such period as a court may allow. Any such application shall be made to the Supreme Court of the Province of British Columbia, being the court which has jurisdiction in the place where the registered office of Genstar is located, or if the Dissenting Shareholder resides in another province of Canada in which Genstar carried on business, to the Supreme Court, Court of Queen's Bench or Superior Court of such province, as the case may be.

A Dissenting Shareholder is not required to give security for costs in any such application to a court and all Dissenting Shareholders whose Dissenting Shares have not been purchased by Genstar will be joined as parties and bound by the decision of the court. Genstar will be required to notify each affected Dissenting Shareholder of the date, place and consequences of an application and of the rights of a Dissenting Shareholder to appear and be heard in person or by counsel. Upon such an application to a court, the court may determine whether any person is a Dissenting Shareholder who should be joined as a party and the court will fix a fair value for the Dissenting Shares of all Dissenting Shareholders whose Dissenting Shares have not been purchased by Genstar. As well, a court may in its discretion allow a reasonable rate of interest on the amount paid to each Dissenting Shareholder from the Effective Date until the date of payment of the amount ordered by the court. The costs of any application to the court by Genstar or a Dissenting Shareholder will be in the discretion of the court.

Dissenting Shareholders will not have any other right under the CBCA to have their Series D Second Preferred Shares appraised and to receive the fair value thereof.

The above is only a summary of the dissenting shareholder provisions of the CBCA which are technical and complex. It is suggested that any holders of Series D Second Preferred Shares who wish to avail themselves of such right of dissent seek their own legal advice as failure to comply strictly with the statutory provisions may prejudice their right of dissent. It is also recommended that holders of Series D Second Preferred Shares consult with their tax advisors as to the income tax consequences of the exercise of the right to dissent.

GENSTAR

AR34



Genstar Corporation
Four Embarcadero Center
San Francisco, CA 94111
Telephone 415-986-7200

March 29, 1985

Dear Shareholder:

Genstar Corporation's Annual and Special Meeting of Shareholders will be held this year in Edmonton, Alberta, Canada, and you are most cordially invited to attend. The meeting will be held at the Four Seasons Hotel, 10235-101st Street, Edmonton, Alberta, commencing promptly at 10:30 a.m. on May 8, 1985.

The matters to be acted upon at the Annual and Special Meeting are described in detail in the attached Notice of Meeting and proxy statement. We suggest that you read this document carefully.

Matters to come before shareholders include the election of directors and proposals to confirm various changes to the Corporation's By-laws and adopt certain amendments to the Corporation's Articles. The Board of Directors of Genstar Corporation unanimously has approved these proposals and believes that their adoption would serve the best interest of all shareholders. We sincerely recommend that you vote for the proposals described in the Proxy Statement.

In the event you cannot attend the meeting and vote in person, please mark, sign and return the enclosed proxy in the pre-paid envelope provided. This will ensure that your shares will be represented at the meeting. We urge that you do this promptly.

Directors and members of our senior management group look forward to meeting shareholders at the Annual and Special Meeting.

Yours sincerely,

A handwritten signature in blue ink, reading "Ross J. Turner". The signature is fluid and cursive.

Ross J. Turner
Chairman and Chief Executive Officer

Yours sincerely,

A handwritten signature in blue ink, reading "Angus MacNaughton". The signature is fluid and cursive.

Angus A. MacNaughton
President and Chief Executive Officer



NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that an Annual and Special Meeting of Shareholders of GENSTAR CORPORATION ("Genstar") will be held in the William Tomison Room, Four Seasons Hotel, 10235-101st Street, Edmonton, Alberta, Canada, on May 8, 1985 at the hour of 10:30 o'clock in the forenoon (Edmonton Time) for the purposes of:

- (a) receiving the report of the directors, the consolidated financial statements of Genstar and the report of the auditors for the year ended December 31, 1984;
- (b) electing directors;
- (c) considering and, if thought fit, confirming the amendments to Genstar's By-laws adopted by the Board of Directors on July 19, 1984 and amended on March 6, 1985, which require (i) not less than 45 days' notice to shareholders of a special meeting called at the request of holders of not less than five percent (5%) of the outstanding shares of Genstar entitled to vote at the meeting ("Quorum Shares"), and (ii) a quorum of not less than two-thirds of the votes represented by the Quorum Shares for any meeting of shareholders to take action with respect to certain specified business combinations and other significant matters not approved by a majority of specified members of the Board of Directors, the full text of such amendments being reproduced in Exhibit A to the accompanying Proxy Statement;
- (d) considering and, if thought fit, adopting a special resolution amending Genstar's Articles to require that (i) specified business combinations and other significant matters be approved, in certain circumstances, by not less than eighty percent (80%) of the votes represented by the outstanding shares of Genstar entitled to vote generally in the election of directors ("Voting Shares"), (ii) the amendment or repeal of the amendments to the Articles described in (i) above or any provisions of the Articles giving the Board of Directors the power to fix the number of shares in, and to determine the terms with respect to the shares of, each series of Genstar's Preferred Shares and Second Preferred Shares, or the adoption of any plan or proposal for the continuation of Genstar under the laws of another jurisdiction, be approved by not less than eighty percent (80%) of the votes represented by the Voting Shares, unless two-thirds of the entire Board of Directors approved such amendment, repeal, plan or proposal and a majority of the Board acting on the matter were specified members of the Board of Directors, and (iii) amendments to the By-law amendments described in (c) above be confirmed by not less than two-thirds of the votes represented by the Voting Shares, unless two-thirds of the members of the entire Board of Directors approved the amendment and a majority of the members of the Board of Directors acting on the matter were specified members of the Board of Directors, the full text of such amendments being reproduced in Exhibit B to the accompanying Proxy Statement;
- (e) appointing auditors; and
- (f) transacting such other business, if any, as may properly be brought before the meeting.

Registered shareholders (i) who are individuals may attend and vote at the meeting in person or by proxy and (ii) which are corporations may attend and vote at the meeting by proxy or by a duly authorized representative. Holders of bearer share warrants may attend and vote at the meeting in person upon presentation thereof of their bearer share warrants or voting certificates in respect thereof or by proxy pursuant to any such voting certificates.

DATED at Vancouver, British Columbia, this 29th day of March, 1985.

By Order of the Board of Directors

Paul T. Coté
Secretary

Shareholders who are unable to attend the meeting in person are invited to complete and sign the accompanying form of proxy, to be returned at their earliest convenience to Genstar, care of Canada Permanent Trust Company, Corporate Services Department, Box 10152 Pacific Centre North, 701 West Georgia Street, Vancouver, British Columbia, Canada V7Y 1E5, in the envelope provided for that purpose.

The Notice of Meeting, accompanied by the form of proxy, Proxy Statement and the Annual Report of Genstar for the year 1984, will be forwarded on or about March 29, 1985 to Genstar's registered shareholders of record at the close of business on March 22, 1985 (the "Record Date"). Each holder of voting shares is entitled to one vote at the meeting for each voting share registered in his or her name as at the close of business on the Record Date except that a transferee of voting shares acquired after the Record Date shall be entitled to vote at the meeting if he or she produces properly endorsed certificates for such shares, or otherwise establishes that he or she owns such shares, and has demanded not later than 10 days before the meeting that his or her name be included in the list of shareholders entitled to vote at the meeting, such list having been prepared as of the Record Date. In addition, holders of bearer share warrants who produce their share warrants at the meeting, or who shall have deposited the same and obtained a voting certificate in respect thereof in accordance with the conditions attaching to such bearer share warrants, shall be entitled to one vote at the meeting for each voting share represented by such bearer share warrants. Additional copies of this Notice of Meeting and of all the other material mentioned may be obtained at the Registered Office of Genstar at 1177 West Hastings Street, Suite 2600, Vancouver, B.C., Canada V6E 3Y3, at Genstar's Executive Office at Four Embarcadero Center, Suite 3800, San Francisco, California 94111, or at any of the offices of the depositaries listed below.

On peut se procurer la version française de cet avis d'assemblée, du formulaire de procuration, de la circulaire de procuration et du rapport annuel de Genstar portant sur l'exercice 1984 en s'adressant au Secrétaire, Corporation Genstar, 1177 West Hastings Street, Suite 2600, Vancouver, Colombie-Britannique, Canada V6E 3Y3.

INFORMATION FOR HOLDERS OF OUTSTANDING SHARES REPRESENTED BY BEARER SHARE WARRANTS

The directors of Genstar have appointed the following depositaries for the purpose of receiving, not later than 48 hours prior to the meeting, deposits of bearer share warrants and of issuing to any depositor a receipt therefor and a voting certificate entitling such depositor to attend and vote at the meeting in person or by proxy, namely:

CANADA PERMANENT TRUST COMPANY	Corporate Services Department Box 10152, Pacific Centre North 701 West Georgia Street Vancouver, Canada V7Y 1E5, or Corporate Services Department Fourth Floor 20 Eglinton Avenue West Toronto, Canada M4R 2E2, or
MORGAN GUARANTY TRUST COMPANY OF NEW YORK	Client Administration, Ninth Floor 30 West Broadway New York, N.Y. 10007, U.S.A., or
SOCIÉTÉ GÉNÉRALE DE BANQUE S.A.	3, rue Montagne du Parc B-1000 Brussels, Belgium, or
BANQUE GÉNÉRALE DU LUXEMBOURG	27 avenue Monterey Luxembourg, or
CRÉDIT SUISSE	Paradeplatz 8 8021 Zurich, Switzerland

Unless otherwise indicated, all dollar amounts referred to in the accompanying Proxy Statement are in United States dollars. Any amounts originally denominated in Canadian dollars have been converted into United States dollars at the rate of \$1.00 = Canadian \$1.32, the exchange rate at December 31, 1984.

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PROXY STATEMENT

SOLICITATION OF PROXIES

The accompanying proxy is being solicited by the Board of Directors and management of Genstar Corporation (herein referred to as "Genstar" or the "Corporation") for use at the Annual and Special Meeting of Shareholders of Genstar to be held on May 8, 1985 at the time, place and for the purposes set forth in the foregoing notice of meeting, and any adjournment thereof. The total cost of such solicitation will be borne by Genstar. The solicitation will be made primarily by mail, and proxy materials will be mailed to registered shareholders on or about March 29, 1985. However, directors, officers and regular employees of Genstar also may solicit proxies at nominal cost by telephone, telegram or by personal interview. The Corporation may retain an agent or agents to assist in the solicitations of the proxies and will bear any costs in connection therewith, presently estimated not to exceed \$15,000 in addition to out-of-pocket expenses. Upon request, Genstar will reimburse banks, brokerage houses and other custodians, nominees and fiduciaries for their reasonable expenses in forwarding proxy material to their principals. The executive office of Genstar is located at Suite 3800, Four Embarcadero Center, San Francisco, California 94111, U.S.A.

APPOINTMENT AND REVOCATION OF PROXIES


Each holder of voting shares is entitled to one vote at the meeting for each voting share registered in his or her name as at the close of business on March 22, 1985 (the "Record Date"), except that a transferee of voting shares acquired after the Record Date shall be entitled to vote at the meeting if he or she produces properly endorsed certificates for such shares, or otherwise establishes that he or she owns such shares, and has demanded not later than 10 days before the meeting that his or her name be included in the list of shareholders entitled to vote at the meeting, such list having been prepared as of the Record Date. A shareholder has the right to appoint as proxy another person (who need not be a shareholder) to represent the shareholder at the meeting and may do so by inserting the name of such other person in the blank space provided for that purpose in the accompanying form of proxy or by completing another proper form of proxy. In addition to any other manner permitted by law, a shareholder who executes and returns the accompanying form of proxy has the power to revoke it, at any time before it is acted upon, by an instrument in writing executed by the shareholder or by his or her attorney duly authorized in writing or, if the shareholder is a corporation, by an officer or attorney duly authorized, and deposited either at Genstar's Registered Office, 1177 West Hastings Street, Suite 2600, Vancouver, B.C., Canada V6E 3Y3, on or before the day preceding the day of the meeting or adjournments thereof at which the proxy is to be used, or with the Chairman of such meeting on the day of such meeting or adjournments thereof. Bearer share warrant holders may attend and vote at the meeting if they (a) produce their bearer share warrants at the meeting, or (b) deposit, not later than 48 hours prior to the meeting, their bearer share warrants at one of the offices of the depositaries listed on page 2 following the Notice of Meeting with a statement setting out their names and addresses, and shall have obtained in exchange appropriate receipts and voting certificates stating their names and addresses and the number of shares represented by the deposited bearer share warrants. Any holder of bearer share warrants receiving a voting certificate as aforesaid also shall be entitled to appoint a proxy to attend, act and vote for and on behalf of such holder at the meeting or any adjournment thereof.

ACTION TO BE TAKEN UNDER THE PROXIES

Shares represented by properly executed proxies in the accompanying form of proxy will be voted or withheld from voting in accordance with instructions indicated thereon. If no contrary instruction is indicated, shares represented by such proxies will be voted by the persons designated in the printed portion thereof for the election of the nominees named below to serve as directors until the close of the next annual meeting, for the confirmation of the amendments to the By-laws referred to in the Notice of Meeting, for the adoption of the special resolution to amend Genstar's Articles referred to in the Notice of Meeting, for the appointment of auditors and, in the discretion of the proxy holder, in respect of such other business, if any, as may properly be brought before the meeting. Should any nominee for director named herein become unable to accept nomination or election, it is intended that such persons acting under proxy will vote for the election in his stead of such other person as the management of Genstar may recommend. Genstar has no reason to believe that any of the said nominees will be unable to serve if elected to office.

NOMINEES FOR ELECTION AS DIRECTORS

Fifteen directors are to be nominated for election at this meeting. Each director elected will hold office until the close of the next annual meeting of shareholders unless prior thereto he shall resign or his office becomes vacant by death, removal or other cause. The following table sets forth, as of March 1, 1985, certain information with respect to the age, the principal occupation and business experience of the nominees over the past five years, the year in which each became a director of Genstar, and the number of Genstar shares beneficially owned by each.

	Name Principal Occupation Business Experience	Director Since	Shares of Genstar Owned Beneficially(1)
	CHARLES de BAR, 67 Corporate Director. From May 1973 until May 1983, Mr. de Bar served as Deputy Chairman of the Board of Genstar. Mr. de Bar is a director of certain publicly held European companies, including Arbed S.A., Cimenteries CBR Cementbedrijven S.A., Elbar Industrial Limited, SIBEKA-Société d'Entreprise et d'Investissements S.A., Sofina S.A. and Tanks Consolidated Investments PLC. He is a member of Genstar's Executive Committee.	1964	40,000 Common(2)(3)
	JAMES W. BURNS, 55 President of Power Corporation of Canada (Holding Company). President and Chief Executive Officer of Power Financial Corporation. Chairman of The Great-West Life Assurance Company. Mr. Burns has served in the above noted positions since February 1979, February 1984 and November 1978, respectively. He is also a director of Canadian Pacific Limited, C-B Pak Inc., Consolidated- Bathurst Inc., The Great-West Life Assurance Company, IBM Canada Ltd., The Investors Group, Montreal Trustco Inc., Power Corporation of Canada and Power Financial Corporation.	1977	—
	ALAN F. CAMPNEY, 56 President of Vanley Agencies Ltd. (Investment and Services Company). Chairman and Chief Executive Officer of Dawn Development Canada Corporation. Mr. Campney has been President of Vanley Agencies Ltd. since December 1954. From July 1983 to February 1984, he was Associate Counsel of Campney &	1984	—

	Name Principal Occupation Business Experience	Director Since	Shares of Genstar Owned Beneficially(1)
	<p>Murphy, a law firm of which he was a partner from 1959 until July 1983. He is also a director of Banque Nationale de Paris (Canada), B.C. Forest Products Ltd., Pacific Western Airlines Ltd., Signet Resources Ltd. and Vancouver Port Corporation. Mr. Campney is a member of Genstar's Audit Committee.</p>		
	<p>FRANK S. CAPON, 69 Consultant. Mr. Capon is Chairman of the Board of Consumers Glass Company Limited. He is Chairman of Genstar's Audit Committee.</p>	1973	1,800 Common
	<p>AUGUST A. FRANCK, 74 Corporate Director. Former Chairman of the Board and Chief Executive Officer of Genstar.</p>	1964	48,011 Common
	<p>DONALD R. GETTY, 51 President of D. Getty Investments Ltd. (Investment Company). Chairman of the Board and Chief Executive Officer of Nortek Energy Corp. From 1975 until he assumed his present positions in April 1979, Mr. Getty was Minister of Energy and Natural Resources for the Province of Alberta, Canada. He is Chairman of the Board of Interprovincial Steel and Pipe Corporation, Ltd., a member of the Board of Governors of Resources of Canada Fund and a director of Brinco Limited, Nortek Energy Corp., Nova, an Alberta Corporation, Placer Development Limited, The Royal Bank of Canada and Trans-Ocean Resources Ltd. He is a member of Genstar's Audit Committee.</p>	1981	—

	Name Principal Occupation Business Experience	Director Since	Shares of Genstar Owned Beneficially(1)
	<p>RENE LAMY, 61</p> <p>Governor of Société Générale de Belgique S.A. (Portfolio Company). Prior to becoming Governor of Société Générale de Belgique in January 1981, Mr. Lamy had been Vice-Governor of that company since 1976. He is a director of certain publicly held European companies, including Arbed S.A., Carbochimique S.A., Crédit Foncier et Immobilier, ELECTROBEL-Générale d'Entreprises Electriques et Industrielles S.A., Compagnie Maritime Belge, PRB, Pétrofina S.A., SIBEKA-Société d'Entreprise et d'Investissements S.A., Société Générale de Belgique S.A., Sofina S.A., Tanks Consolidated Investments PLC and Tractionel S.A. He is a member of Genstar's Executive Remuneration Committee.</p>	1982	—
	<p>WALTER F. LIGHT, 61</p> <p>Chairman of Northern Telecom Limited (Telecommunications Equipment Manufacturer). Mr. Light was Chairman and Chief Executive Officer of Northern Telecom Limited from May 1982 until September 1984. He was President of Northern Telecom Limited from August 1974 until he was appointed Chief Executive Officer in October 1979. He was appointed Chairman and Chief Executive Officer in May 1982. He is also a director of Air Products and Chemicals, Inc., Inco Limited, Moore Corporation, Northern Telecom Limited, The Procter & Gamble Company, The Royal Bank of Canada and Shell Canada Limited. He is a member of Genstar's Executive Remuneration Committee.</p>	1976	200 Common
	<p>ANGUS A. MacNAUGHTON, 53</p> <p>President and Chief Executive Officer of Genstar. In addition to being Chief Executive Officer, Mr. MacNaughton has served as President or Chairman of the Board of Genstar since May, 1981. Before that he had served as Vice Chairman and Chief Executive Officer of Genstar</p>	1969	36,655 Common(3)(4) 198,750 Series SP Second Preferred(5)

since April, 1976. He is also a director of Canadian Pacific Enterprises Limited and Sun Life Assurance Company of Canada. He is Chairman of Genstar's Executive Committee.



W. EARLE McLAUGHLIN, 69

Corporate Director.

From 1962 to 1979, Mr. McLaughlin was Chairman of the Board and Chief Executive Officer of The Royal Bank of Canada and from 1979 until 1980 he was Chairman of the Board of that Bank. Mr. McLaughlin is also a director of The Algoma Steel Corporation Limited, Canadian Pacific Enterprises Limited, Canadian Pacific Limited, General Motors Corporation, L'Air Liquide S.A., Nabisco Brands, Inc. and The Royal Bank of Canada. He is a member of Genstar's Executive Committee and Chairman of the Executive Remuneration Committee.

1961

1,200

Common

800

Series C \$2.35

Second Preferred



FREDERICK W. MIELKE, JR., 64

Chairman of the Board and Chief Executive Officer of Pacific Gas and Electric Company (Public Utility).

Since 1979, Mr. Mielke has been Chairman of the Board, Chief Executive Officer and a director of

Pacific Gas and Electric Company.

Mr. Mielke is also a director of

Alberta Natural Gas Co. and

Pacific Gas Transmission Company.

1983

200

Common



YVES du PARC, 52

Managing Director, Mines, Minerais et Métaux, S.A. (International Trading Company).

Mr. du Parc was Executive Director of Mines, Minerais et Métaux, S.A.

from January 1983, and has been Managing Director of that company since

January 1984. He was President of

Norore Corp. (International Trading Company) from November 1983

until June 1984, and held the

Position of Deputy General Manager

of Société Générale des Minerais

from March 1975 until December 1983.

He is also a director of Cimenteries

CBR Cementbedrijven S.A.

He is a member of Genstar's

Audit Committee.

1981

1,091

Common

	Name Principal Occupation Business Experience	Director Since	Shares of Genstar Owned Beneficially(1)	
	SAUL SIMKIN, 69 Chairman of the Board of Kins Management Limited (Consultants). Mr. Simkin has held such position since May 1976.	1968	98,650	Common
	ROSS J. TURNER, 54 Chairman of the Board and Chief Executive Officer of Genstar. In addition to being Chief Executive Officer, Mr. Turner has served as President or Chairman of the Board of Genstar from April 1976. He is also a director of The Great-West Life Assurance Company and Rio Algom Limited. He is a member of Genstar's Executive Committee.	1973	32,939 198,750	Common(3)(5) Series SP Second Preferred (5)
	STEPHEN R. VOLK, 48 Partner—Shearman & Sterling (Law Firm) Mr. Volk is and has been a partner in the law firm of Shearman & Sterling since 1968.	1983	200	Common

Notes: (1) Includes the estimated number of common shares attributable to such persons under the Genstar Company Salaried Employees' Thrift Plan at March 1, 1985. Unless otherwise noted, the beneficial owners of the shares reported exercise sole voting power and sole investment power with respect to such shares and beneficially own less than 1% of the outstanding shares of the class.

(2) Does not include 36,000 common shares which Mr. de Bar has the right to acquire within 60 days from March 1, 1985.

(3) Does not include any of the 900,000 common shares and 169,600 Series C \$2.35 Second Preferred Shares which are, respectively, the subject of an agreement between a bank and a private corporation beneficially owned by Messrs. MacNaughton, Turner, de Bar and others, and owned by a general partnership, the partnership interests of which are beneficially owned by Messrs. MacNaughton, Turner, de Bar and others as described below. Such 900,000 common shares and 169,600 Series C \$2.35 Second Preferred Shares constitute approximately 2.8% and 5.7%, respectively, of the outstanding shares of these classes.

(4) Does not include 1,000 Common Shares and 2,000 Series C \$2.35 Second Preferred Shares owned by Mr. MacNaughton's children as to which shares Mr. MacNaughton disclaims beneficial ownership.

(5) Messrs. MacNaughton and Turner each hold 115,000 Series SP-82A Second Preferred Shares, collectively representing 70.2% of the outstanding Series SP-82A Shares, 42,500 Series SP-82B Second Preferred Shares, collectively representing 77.4% of the outstanding Series SP-82B Shares, 20,000 Series SP-83 Second Preferred Shares, collectively representing 54.6% of the outstanding Series SP-83 Shares, and 21,250 Series SP-84 Second Preferred, collectively representing 52.1% of the outstanding Series SP-84 Shares.

COMMITTEES OF THE BOARD OF DIRECTORS

Genstar has standing Executive, Audit and Executive Remuneration Committees of the Board of Directors. The Executive Committee is empowered to exercise the full powers of the Board, excepting those powers specifically reserved to the Board by sub-section 110(3) of the Canada Business Corporations Act, and performs the functions of a nominating committee. The Executive Committee will consider shareholder suggestions for director nominees. See "Proposals by Shareholders for 1986 Annual Meeting" at page 32 for a description of the procedures for submitting such suggestions.

The Executive Remuneration Committee recommends for the approval of the Board remuneration for directors, determines remuneration for senior management and supervises the administration of the Revised 1969 Stock Purchase Plan, the 1979 Stock Purchase Plan and the 1982 Employee Incentive Stock Option Plan.

The Audit Committee reviews the Corporation's audited financial statements and certain other reports of a financial character, reviews any significant changes in auditing policies and practices, reviews the scope of internal and external audit work and audit fees incurred by the Corporation, reviews the evaluations by the Corporation's internal and external auditors of the Corporation's system of internal financial controls, and reviews and approves the travel and expense accounts of the Chief Executive Officers.

During 1984, the following meetings (including regularly scheduled and special meetings) were held: 9 meetings of the Board of Directors, 6 meetings of the Executive Committee, 3 meetings of the Audit Committee and 4 meetings of the Executive Remuneration Committee. Each member of the Board of Directors attended not less than 75% of the aggregate of all Board meetings and meetings of committees on which he served except for Messrs. Lamy and Mielke.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

As of March 1, 1985, the issued and outstanding voting shares of Genstar, each entitled to one vote per share, were as follows:

<u>Class and Series</u>	<u>Number Outstanding</u>
Preferred Shares	
Series A \$1.10 Cumulative Redeemable	923
Series B \$1.20 Non-Cumulative Redeemable (including 32,487 shares represented by bearer share warrants).....	37,828
Series D \$1.50 Cumulative Convertible Redeemable	14,563
Second Preferred Shares	
Series SP-82A Convertible Redeemable.....	327,550
Series SP-82B Convertible Redeemable.....	109,850
Series SP-83 Convertible Redeemable	73,300
Series SP-84 Convertible Redeemable	81,650
Series B (U.S.) \$1.68 Cumulative Convertible Redeemable.....	210,255
Series C \$2.35 Cumulative Convertible Redeemable	2,976,320
Common Shares (including 4,075,988 shares represented by bearer share warrants)	31,780,817
Total Voting Shares.....	<u>35,613,056</u>

Also outstanding are 1,000,000 Series A, 4,000,000 Series D and 4,000,000 Series E Second Preferred Shares. The Series A Second Preferred Shares are entitled to one vote each upon the happening of certain events, none of which has occurred. In addition, upon the happening of certain events, none of which has occurred, the holders of the Series D and Series E Second Preferred Shares, together with the Series B Second Preferred Shares, are entitled to elect two directors of the Corporation.

As of March 1, 1985, the beneficial shareholdings of Genstar directors and officers as a group were as follows: 340,257 common shares (1.1%, not including the shares subject to an agreement with the private corporation referred to below); 400 Series B (U.S.) \$1.68 Second Preferred Shares (0.2%); 147,604 Series C \$2.35 Second Preferred Shares (5%, including the holdings of the general partnership referred to below

attributable to such group); 275,250 Series SP-82A Second Preferred Shares (84%); 100,700 Series SP-82B Second Preferred Shares (91.7%); 64,450 Series SP-83 Second Preferred Shares (87.9%); and 68,500 Series SP-84 Second Preferred Shares (83.9%).

Information as to the ownership of shares represented by bearer share warrants is not available to the Corporation. While some individuals or entities own more than 5% of various series of shares of the Corporation, to the knowledge of the Corporation, there was no shareholder beneficially owning more than 5% of the total voting shares of the Corporation as of March 1, 1985, including those voting shares represented by bearer share warrants, except as follows:

<u>Name and Address</u>	<u>Title of Class</u>	<u>Number of Shares Owned</u>	<u>Percentage of Class</u>	<u>Percentage of Total Voting Shares</u>
Société Générale de Belgique S.A. ("SGB") (1) 30 Rue Royale Brussels, Belgium	Common Shares	3,133,969(2)	9.86%	8.8%
Bank of Montreal (3) 129 Rue St. Jacques Montreal, Quebec Canada	Common Shares	2,700,000	8.5%	7.6%
Caissé de depot et placement du Québec 1981 McGill College Avenue Montreal, Quebec Canada	Common Shares	2,843,938	8.95%	7.99%

- (1) Mr. René Lamy, a Genstar director, is also Governor of SGB and he and Mr. Charles de Bar, a Genstar director, are directors of SIBEKA-Société d'Enterprise et d'Investissements S.A. and Tanks Consolidated Investments PLC which, respectively, own 300,000 and 504,656 Genstar common shares, which shares are included in the number of shares owned beneficially by SGB.
- (2) Does not include 1,800,000 Genstar common shares which SGB has the right to acquire and, in certain circumstances, may be required to acquire from the Bank of Montreal as described in Note (3) below. As of March 1, 1985, nine companies in which SGB has other than insignificant, direct or indirect minority interests beneficially owned in the aggregate 1,995,533 Genstar common shares (being approximately 6.3% of all common shares and 5.6% of all voting shares of the Corporation). One or more of Messrs. Lamy, de Bar and du Parc are directors of three of such nine companies and of another company, which companies have interests in four other of such nine companies, which hold in the aggregate 1,991,933 of such 1,995,533 Genstar common shares. SGB has disclaimed beneficial ownership of the Genstar common shares owned by these nine companies.
- (3) Of the common shares beneficially owned by the Bank of Montreal, 1,800,000 shares are subject to an agreement with SGB whereby SGB has the right to acquire and, in certain events, may be required to acquire such shares, and 900,000 shares are subject to an agreement with the private corporation noted in the second paragraph below whereby the private corporation has the right to acquire and, in certain events, may be required to acquire such shares.

At the time of its incorporation, Genstar was wholly-owned by companies in which SGB held various stockholding interests. Messrs. Lamy and du Parc are considered by Genstar to be representatives of SGB or companies in which SGB has various stockholding interests. Two other directors, Mr. August A. Franck and Mr. Charles de Bar, have both historical and current ties to SGB or such companies. Because of the historical ties between Genstar and SGB, because SGB is a principal minority shareholder of Genstar and in order to assure ready access to SGB's expertise in areas of business in which Genstar is engaged, representatives of Genstar discuss its affairs from time to time with representatives of SGB. In the opinion of Genstar's directors and management, Genstar is not controlled by SGB or, for that matter, by any one shareholder or related group of shareholders, but rather by the Board of Directors of Genstar.

A private corporation, beneficially owned by Messrs. MacNaughton, Turner, de Bar, three other officers and four former officers of Genstar but not controlled by any one of such persons alone, is a party to a put and call agreement with the Bank of Montreal covering 900,000 Genstar common shares. Messrs. MacNaughton, Turner and de Bar beneficially own, respectively, 33%, 33% and 3.6% of the outstanding shares of such private corporation. The agreement provides that such corporation may acquire any of such 900,000 shares at any time and, after the occurrence of certain specified events, may be required by the Bank of Montreal to purchase all of such shares. In addition, a general partnership, the partnership interests of which are beneficially owned by Messrs. MacNaughton, Turner, de Bar and such other present and former officers of Genstar but which is not controlled by any one of such persons alone, owns 169,600 Series C \$2.35 Second Preferred Shares of Genstar. Messrs. MacNaughton, Turner and de Bar beneficially own, respectively, 33%, 33% and 3.6% of the interests in such partnership. The 900,000 common shares noted above and the 169,600 Series C \$2.35 Second Preferred Shares held by such partnership, together with all other voting shares held, or subject to options exercisable within 60 days from March 1, 1985, by officers and directors of Genstar who are the beneficial owners of such private corporation and such partnership, represented approximately 4.8% of the outstanding voting shares of Genstar as of March 1, 1985.

REMUNERATION OF DIRECTORS AND OFFICERS

The following table, presented in accordance with the rules of the U.S. Securities and Exchange Commission, shows all remuneration paid or payable by Genstar and its subsidiaries in respect of 1984 to or for the benefit of (i) each of the five most highly compensated executive officers whose total remuneration exceeded U.S. \$60,000 and (ii) all executive officers of Genstar as a group.

<u>Names of Individuals or Identity of Group</u>	<u>Capacity in Which Remuneration Was Received</u>	<u>Salary and Directors' Fees(1)</u>	<u>Bonuses</u>	<u>Other Benefits(2)</u>
Ross J. Turner.....	Chairman, Chief Executive Officer and Director	\$ 403,500	\$ 425,000	\$ 27,628
Angus A. MacNaughton	President, Chief Executive Officer and Director	403,500	425,000	27,628
Walter S. Bannister.....	Executive Vice President	177,500	80,000	236,540
J. Leonard Holman	Executive Vice President	201,250	135,000	20,099
George F. Michals.....	Executive Vice President	180,000	105,000	16,576
Executive Officers as a group (16 persons)		\$2,479,791	\$1,579,212	\$458,006

(1) Excludes amounts contributed under a thrift plan on behalf of the named individuals and group. See "Salaried Employees' Thrift Plan" at page 28 of this Proxy Statement for information regarding the thrift plan.

(2) Includes the value of estate, financial and tax counseling, rental assistance payments, and reimbursements by Genstar of interest paid by those officers who received housing assistance loans, and, in the case of Mr. Bannister, includes reimbursement of taxes and cancellation of indebtedness in respect of property transferred to him prior to 1983 in connection with his relocation to the Corporation's offices at San Francisco, California. See "Indebtedness of Management" at page 31 of this Proxy Statement.

The following table, presented in accordance with the Canada Business Corporations Regulations, sets forth (in U.S. dollars) the aggregate remuneration paid or payable in respect of 1984 by Genstar and its subsidiaries to the directors of the Corporation as a group in their capacity as directors, and to the officers of Genstar who each received in excess of Cdn. \$40,000, as a group.

<u>Remuneration of Directors</u>	<u>Directors' Fees</u>	<u>Salaries</u>	<u>Bonuses</u>	<u>Other</u>	<u>Total</u>
Number of Directors: 16					
Expense incurred by Genstar Corporation.....	\$264,020	\$ —	\$ —	\$ —	\$ 264,020
<u>Remuneration of Officers</u>					
Number of Officers: 20 (Including 2 who are also directors)					
Expense incurred by Genstar Corporation.....	\$ —	\$2,700,252	\$1,586,788	\$491,776(a)	\$4,778,816
Totals.....	<u>\$264,020</u>	<u>\$2,700,252</u>	<u>\$1,586,788</u>	<u>\$491,776</u>	<u>\$5,042,836</u>

- (a) This amount includes the spread between the acquisition and the market prices of shares granted in 1984 under the 1969 Stock Purchase Plan, together with the values and amounts of those benefits described in note (2) above, and certain other benefits taxable in the hands of the recipients, such as relocation assistance and medical and life insurance benefits. This amount excludes employer contributions under the Salaried Employees' Thrift Plan. See "Salaried Employees' Thrift Plan" at page 28 of this Proxy Statement for information regarding the thrift plan.

As a result of the Corporation relocating its executive offices in 1979 to San Francisco from Montreal, certain executive officers of the Corporation were transferred to San Francisco. Unanticipated Canadian income taxes have been imposed upon these officers in respect of arrangements with the Corporation associated with their transfer to San Francisco. During 1984, payments were made to Messrs. Turner, MacNaughton, Holman, Michals and all executive officers, including one former executive officer, as a group (7 persons), in the amounts of \$64,726, \$64,726, \$63,611, \$29,342, and \$271,962, respectively, in respect of such taxes, which amounts are not included in the tables set forth above.

During 1984, directors' fees were paid as follows: annual retainers of \$12,000, \$3,000, \$1,500 and \$1,500 were paid to all directors, Executive Committee members, the Chairman of the Audit Committee and the Chairman of the Executive Remuneration Committee, respectively, and a fee of \$500 was paid for each attendance of a director at a meeting of the Board or at a meeting of a Board committee of which he was a member. Effective January 1, 1985, changes were made in the fee schedule as follows: \$14,000 directors' annual retainer, \$750 Board meeting attendance fee, \$2,000 Committee Chairman annual retainer and \$750 Committee meeting attendance fee if the meeting is not held on the same day as a Board meeting. All other fees remain unchanged. Directors who are Genstar officers do not receive annual retainers or attendance fees for their participation on Board Committees.

CONFIRMATION OF BY-LAW AMENDMENTS AND APPROVAL OF AMENDMENTS TO ARTICLES

INTRODUCTION

The Board of Directors unanimously has adopted certain amendments to Genstar's By-laws (collectively, the "By-Law Amendments"). Under the Canada Business Corporations Act (the "Act"), the By-Law Amendments are subject to confirmation by Genstar's shareholders. The Board of Directors also unanimously has approved certain amendments to Genstar's Articles (collectively, the "Article Amendments") and voted to submit them to Genstar's shareholders for adoption.

Each of the proposed By-Law Amendments and Article Amendments (collectively, the "Amendments"), together with the specific significant effects, advantages and disadvantages thereof, is described below. The full text of the Amendments is set forth in Exhibits A and B to this Proxy Statement, which shareholders are urged to read carefully. The overall significant effects, advantages and disadvantages of the Amendments are described below under the caption "Overall Purposes and Effects of the Amendments".

If approved by the shareholders, the Amendments would have, in general terms, the following effects. The By-Law Amendments (see Proposal 1 below) would require (i) not less than 45 days' notice to shareholders of a special meeting called at the request of holders of not less than five percent (5%) of the outstanding shares of Genstar entitled to vote at the meeting (the "Quorum Shares"), and (ii) a quorum of not less than two-thirds of the votes represented by the Quorum Shares to take action with respect to certain specified business combinations involving Genstar and an Interested Shareholder (as hereinafter defined) and other significant matters (including the election and removal of directors) not approved by a majority of the members of the Board of Directors not affiliated or associated with an Interested Shareholder (the "Continuing Directors").

An "Interested Shareholder" is defined as any person who or which is the beneficial owner of more than 10% of the votes represented by the outstanding shares of Genstar entitled to vote generally in the election of directors (the "Voting Shares") (except for Genstar, certain of its subsidiaries, and any person who was already such a beneficial owner as of June 1, 1984). The term "beneficial owner" includes persons directly or indirectly owning or having the right to dispose of or vote the shares. Under certain circumstances, an Interested Shareholder could include persons or entities affiliated or associated with an Interested Shareholder and persons or entities with agreements or understandings with such Interested Shareholder with respect to Voting Shares or acquiring, holding or disposing of property of Genstar. At the present time, Genstar is not aware of the existence of any shareholder or group of shareholders which would be an Interested Shareholder. See "Voting Shares and Principal Owners Thereof" at page 10 of this Proxy Statement for further share ownership information.

The Article Amendments (see Proposal 2 below) would require (i) that specified business combinations involving Genstar and an Interested Shareholder must satisfy certain form of consideration, minimum price and procedural requirements, unless approved by either a majority of the Continuing Directors or not less than eighty percent (80%) of the votes represented by the Voting Shares; (ii) the affirmative vote of not less than eighty percent (80%) of the votes represented by the Voting Shares for the amendment or repeal of the amendments described in the foregoing clause (i) or provisions of the Articles relating to the power of the Board of Directors to fix the number of shares in, and to determine the designations, rights, privileges, restrictions and conditions attaching to, each series of Genstar's Preferred Shares and Second Preferred Shares or the adoption of any plan or proposal for the continuation of Genstar under the laws of another jurisdiction, unless such amendment or plan or proposal is approved by two-thirds of the entire Board of Directors and a majority of the Board of Directors acting on the matter were Continuing Directors; and (iii) the affirmative vote of not less than two-thirds of the votes represented by the Voting Shares for the amendment of the By-Law Amendments, unless such amendment was approved by two-thirds of the entire Board of Directors and a majority of the members of the Board of Directors acting on the matter were Continuing Directors.

Pursuant to the Act, the By-Law Amendments were effective upon adoption by the Board of Directors on July 19, 1984, as amended on March 6, 1985, but are subject to being confirmed or rejected by the shareholders at the Annual and Special Meeting. If adopted by the shareholders, the Article Amendments

would become effective on the date shown in the Certificate of Amendment issued by the Canadian authorities pursuant to the Act upon receipt of Articles of Amendment from Genstar. Such issuance is expected to occur shortly following adoption of the Article Amendments by the shareholders.

OVERALL PURPOSES AND EFFECTS OF THE AMENDMENTS

The Board of Directors is recommending the adoption of the Amendments in order to further continuity and stability in the direction and policy of Genstar and to discourage certain types of tactics that are not in the best interests of the shareholders.

Genstar's shares are traded on the New York, Pacific, Toronto, Montreal, and certain European Stock Exchanges. While the laws and regulations in Canada and the United States are intended to afford protection to shareholders faced with take-over transactions, both the statutory provisions and their applications by courts and regulatory authorities differ significantly in the two jurisdictions. As a result, different tactics have been employed by take-over bidders and target companies in the Canadian and United States securities markets.

There has been a growing trend in both Canada and the United States towards the accumulation of substantial share positions in public companies by third parties as a prelude to proposing a restructuring or sale of all or part of the company or other similar extraordinary corporate action. Such actions often are undertaken by a third party without advance notice to, or consultation with, the company's board of directors. Such a purchaser often seeks representation on the company's board in order to increase the likelihood that its proposal will be implemented by the company. If the company resists its efforts to obtain board representation, the purchaser may commence a proxy contest to have itself or its nominees elected to the board in place of certain directors or the entire board. In some cases, the purchaser may not be interested in taking over the company, but uses the threat of a proxy fight and/or a bid to take over the company as a means of pressuring the company to repurchase the purchaser's equity position at a substantial premium over market price, so-called "greenmail." In such event, the company faces the risk that if it does not repurchase the purchaser's equity position, business and management will be disrupted, perhaps irreparably, and if it does so it may be required to offer to repurchase all of its shares at the substantial premium over market offered to such purchaser. Moreover, a company might have to incur an unfavorable debt burden in order to finance such a repurchase, which could have a long-term detrimental effect on the company. In other cases, after acquiring effective control, the controlling person seeks to eliminate the minority shareholders in a transaction which often involves non-cash consideration or non-voting securities having a value less than that paid to acquire control of the company.

The use of "greenmail" tactics, to date, has not emerged in Canadian securities markets. Securities legislation in a number of Canadian jurisdictions requires, subject to certain exceptions, that a company must offer to purchase its shares ratably from all shareholders. In addition, Canadian securities administrators have the statutory authority to intervene in the course of a contest for control to cease trading in the securities of the target company and to hold a hearing if such action is deemed to be in the public interest.

The Board of Directors believes that if such a person were to purchase a significant or controlling interest in Genstar, its ability to take certain actions under Genstar's unamended By-laws and current Articles without the participation of the majority of Genstar's shareholders would severely curtail Genstar's ability to negotiate effectively with such person and to discourage disruptive tactics.

The Amendments cannot, and are not intended to, prevent a purchase of all or a majority of Genstar's shares, nor are they intended to deter bids for such shares offering a fair price to the shareholders. Rather, the Amendments are intended to encourage persons seeking to acquire control of Genstar to initiate such an acquisition through arm's length negotiations with the Board of Directors and to give the shareholders of Genstar a more meaningful opportunity to evaluate any such actions. The overall effect of the Amendments, if adopted, however, may be to discourage a person from making a partial tender offer or take-over bid (including an offer at a substantial premium over the then-prevailing market value of Genstar's shares) or otherwise attempting to obtain a substantial position in Genstar in order to commence a proxy contest or engage in other take-over-related action, even though some or a majority of Genstar's shareholders may believe such actions to be beneficial to them. To the extent any potential acquirers are deterred by the Amendments, the

Amendments may have the effect of preserving the incumbent management and Board of Directors in office. In addition, since the Amendments are in part designed to discourage accumulations of large blocks of Genstar's shares by purchasers whose objective is to have such shares repurchased by Genstar at a premium, their adoption could tend to reduce the temporary fluctuations in the market price of Genstar's shares which are caused by such accumulations. Accordingly, shareholders could be deprived of certain opportunities to sell their shares at a temporarily higher market price.

Take-overs or changes in the board of directors of a company which are proposed and effected without prior consultation and negotiation with the company are not necessarily detrimental to the company and its shareholders. The Board of Directors feels, however, that the benefits of protecting Genstar's ability to negotiate effectively, through directors who have previously been elected by the shareholders as a whole and are familiar with Genstar, with the proponent of an unfriendly or unsolicited proposal to effect a take-over or restructuring of Genstar outweigh any disadvantage of discouraging such proposals. In transactions subject to approval by an independent majority of the Board of Directors, the Board can and should take into account the underlying and long-term value of Genstar's assets, the possibilities for alternate transactions on more favorable terms, possible advantages of a tax-free reorganization, anticipated favorable developments in Genstar's business not yet reflected in the market price for its shares, and equality of treatment of all shareholders.

Genstar's Articles currently contain another provision which may have an anti-take-over effect. Genstar's current Articles authorize the issuance of up to 20,000,000 Second Preferred Shares. A total of approximately 14,073,000 Second Preferred Shares have been issued, of which approximately 12,779,000 are outstanding. The Board of Directors has authority to issue the remaining Second Preferred Shares and also the authority to determine, subject to the provisions of the Act, the designations, rights, privileges, restrictions and conditions, including voting rights, of such shares. Although the Board of Directors presently has no intention of doing so, the Board of Directors could issue, within the limits imposed by applicable law, such shares with sufficient voting rights so that the holder thereof would have the voting power to assure that any proposal to consummate a business combination opposed by the incumbent Board of Directors, to replace incumbent directors or elect directors not approved by incumbent directors, or to alter, amend or repeal any of the provisions that will be added to the Articles and By-laws by the Amendments, would not receive the required shareholder vote. The Articles and By-laws currently do not contain any other provisions intended by Genstar to have, or, to the knowledge of the Board of Directors, having, an anti-take-over effect. In addition, the Articles do not currently provide for cumulative voting by the shareholders for the election of directors, even though such a provision is permitted under the Act.

The Amendments are permitted under the Act and under applicable securities laws and stock exchange rules in Canada and the United States. Both the Ontario Securities Commission (the "OSC") and the Toronto Stock Exchange (the "TSE") have policies concerning disclosure relating to equity shares which do not enjoy full voting rights under all circumstances. These policies confer discretionary authority on the OSC and the TSE to deem shares of a particular class to be subject to such policies. Staff members of the OSC and the TSE have expressed concern that the By-Law Amendments may have the effect of modifying the voting rights of shareholders, and, as a result, the common shares may have to be described in a manner that informs shareholders and the public generally that the voting rights represented by such shares are limited in some respects. No decision on this view is anticipated from the OSC and TSE until they have undertaken a general review of initiatives by companies addressing matters similar to those addressed in the By-Law Amendments.

In addition, staff members of the OSC have expressed a more general concern about the implications for Canadian securities markets of provisions such as those contained in the Amendments. In the event that Commission staff ultimately concludes that such provisions are inappropriate, they may recommend that the Commission consider taking action, either with respect to these Amendments or by the implementation of policy of general application.

The Amendments are not in response to efforts of which Genstar is aware to accumulate Genstar's shares or to obtain control of Genstar. The Board does not currently contemplate recommending adoption of any further amendments to the Articles or By-laws designed to affect the ability of third parties to take-over or change control of Genstar.

Adoption of the Amendments may have significant effects on the ability of shareholders of Genstar to benefit from certain kinds of transactions which may be opposed by the incumbent Board of Directors. The Board of Directors believes, however, that confirmation of the By-Law Amendments and adoption of the Article Amendments are in the best interests of all of the shareholders. Accordingly, the Board of Directors recommends that they be approved by the shareholders.

The following description of the Amendments is qualified in its entirety by reference to Exhibits A and B to this Proxy Statement.

PROPOSAL 1—CONFIRMATION OF BY-LAW AMENDMENTS RELATING TO NOTICE AND QUORUM REQUIREMENTS FOR SHAREHOLDER MEETINGS

Generally, the By-Law Amendments provide (a) that shareholder meetings called at the request of holders of not less than five percent (5%) of the Quorum Shares be called on not less than 45 days' nor more than 50 days' notice (as compared with not less than 21 days nor more than 50 days for other shareholder meetings) and (b) that two-thirds of the votes represented by the Quorum Shares are required to constitute a quorum at any meeting of shareholders to take action with respect to certain specified business combinations involving Genstar and an Interested Shareholder and other significant matters not approved by a majority of the Continuing Directors. Pursuant to the Act, the By-Law Amendments were effective immediately upon their adoption by the Board of Directors, but are subject to being confirmed or rejected by the shareholders at the meeting of shareholders next following the Board meeting at which such amendments were adopted.

The text of the By-Law Amendments proposed to be confirmed is set forth in Exhibit A to this Proxy Statement.

Notice for Special Shareholders' Meetings

Under the Act, shareholders owning not less than five percent (5%) of the Quorum Shares may requisition the directors to call a meeting of shareholders (the "shareholders' requisition") for the purposes stated in the shareholders' requisition. If the directors do not call a meeting of shareholders within 21 days of receiving the shareholders' requisition, any shareholder who signed the requisition may call the meeting. The Act requires that notice of the time and place of a meeting of shareholders be sent not less than 21 nor more than 50 days before the meeting.

Consistent with the provisions of the Act, the By-Law Amendments require that notice of the time and place of a meeting of shareholders called by the directors be sent not less than 21 days nor more than 50 days before the meeting. With respect to meetings of shareholders called pursuant to a shareholders' requisition, the By-Law Amendments require that the minimum notice period be 45 days. Such provision is designed to provide the shareholders of Genstar with adequate time to consider and respond in an informed way to proposals submitted by the shareholders requesting the meeting.

Higher Quorum for Certain Shareholder Actions

The Act provides that, unless the by-laws of a company otherwise require, a quorum of shareholders is present at a meeting of shareholders if holders of a majority of the shares entitled to vote at the meeting are present in person or represented by proxy. Prior to the By-Law Amendments, the By-laws provided that persons representing fifteen percent (15%) in number of the Quorum Shares, including not less than twenty-five percent (25%) in number of the registered Quorum Shares (the "Registered Shares"), is sufficient for a quorum at an annual meeting of shareholders and twenty-five percent (25%) in number of the Quorum Shares, including not less than fifty percent (50%) in number of the Registered Shares, is sufficient for a quorum at a special meeting of shareholders. No quorum was required for meetings adjourned because of the lack of a quorum. The By-Law Amendments retain these general requirements (providing, however, that the percentages required to constitute a quorum at a special meeting are calculated not on the number of Quorum Shares but on the number of votes represented by the Quorum Shares) but require a higher quorum for the purpose of taking certain specified actions at shareholder meetings and adjournments thereof.

The By-Law Amendments provide that a quorum of not less than two-thirds of the votes represented by the Quorum Shares is required to take action at meetings of shareholders, including adjournments thereof, relating to certain specified matters that have not been approved by a majority of the Continuing Directors. The

matters which would require such higher quorum are (a) the removal of directors, (b) the election of directors, (c) the adoption of any plan or proposal for the continuation of Genstar under the laws of another jurisdiction, (d) specified business combinations which include (i) a merger, amalgamation or consolidation of Genstar or any subsidiary of Genstar (a "Subsidiary") with an Interested Shareholder, (ii) the sale or other disposition by Genstar or a Subsidiary of assets having an aggregate fair market value of not less than (Cdn.) \$10,000,000, if an Interested Shareholder is a party to the transaction, (iii) the issuance or transfer of stock or other securities of Genstar or of a Subsidiary to an Interested Shareholder in exchange for cash or property (including stock or other securities) having an aggregate fair market value of not less than (Cdn.) \$10,000,000, (iv) the adoption of any plan or proposal for the liquidation or dissolution of Genstar proposed by or on behalf of an Interested Shareholder, (v) any reclassification of securities (including any subdivision or consolidation), capital reorganization or recapitalization of Genstar, or any merger, amalgamation or consolidation of Genstar with a Subsidiary or other transaction which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of shares carrying voting rights or any securities convertible into shares carrying voting rights of Genstar or a Subsidiary owned by an Interested Shareholder, and (vi) any agreement, contract or other arrangement providing for any one or more of the actions described in (c) or in this clause (d), and (e) the amendment, alteration or repeal of, or adoption of any provision inconsistent with, the By-Law Amendments or the Articles (the matters set forth in (i) through (vi) are hereinafter referred to as "Business Combinations" and the matters set forth in (a) through (e) are hereinafter referred to as "Significant Actions").

Because of the increased use by third parties of take-over tactics which are not designed necessarily to result in the greatest advantage to existing shareholders, the Board of Directors had been concerned that such a third party might take advantage of Genstar's generally low quorum requirements for shareholder meetings by proposing and taking Significant Actions, which may not be in the best interests of all the shareholders of Genstar, with the participation of only a small percentage of shareholders. The proportion of Genstar's Quorum Shares represented at the 1982, 1983, and 1984 Annual Meetings of Shareholders was approximately 57%, 58% and 53%, respectively. The Board of Directors believes that the provisions of the By-Law Amendments are in the best interests of Genstar's shareholders because they ensure that Significant Actions which affect Genstar's affairs and which the Board of Directors does not consider to be in the best interests of Genstar and its shareholders will be considered and voted upon by shareholders holding two-thirds of the votes represented by the Quorum Shares rather than by a smaller, possibly non-representative proportion of shareholders or not at all.

The By-Law Amendments generally may have an anti-take-over effect because they may make it more difficult for a person who has acquired a substantial voting position in Genstar to take any of the Significant Actions specified above.

Under the Act, directors are elected by a majority of the votes cast at a meeting of shareholders. Directors also may be removed by a majority of the votes cast at a special meeting of shareholders. The By-Law Amendments would make it more difficult for shareholders to change the composition of the Board of Directors, since a quorum of two-thirds of the votes represented by the Quorum Shares would be required before action could be taken to remove existing directors or to elect directors, in each case where such action was not recommended by a majority of the Continuing Directors. Thus, the existence of the higher quorum requirements may increase the likelihood that incumbent directors will retain their positions.

The Resolution confirming the By-Law Amendments requires the affirmative vote of the holders of not less than a majority of the votes cast on the Resolution.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU **VOTE FOR** THE CONFIRMATION OF THE AMENDMENTS TO THE BY-LAWS RELATING TO NOTICE AND QUORUM REQUIREMENTS FOR SHAREHOLDER MEETINGS.

PROPOSAL 2—ADOPTION OF AMENDMENTS TO ARTICLES RELATING TO SHAREHOLDER VOTE FOR BUSINESS COMBINATIONS AND CERTAIN AMENDMENTS TO ARTICLES AND BY-LAWS.

The Board of Directors has approved a proposal to add a new Schedule 2 to the Articles and has voted to recommend that Genstar's shareholders approve the proposal. In general, the Article Amendments would (i) provide that Business Combinations involving Genstar and an Interested Shareholder must satisfy certain form of consideration, minimum price and procedural requirements, unless approved by either a majority of the

Continuing Directors or not less than eighty percent (80%) of the votes represented by the Voting Shares; (ii) require affirmative vote of not less than eighty percent (80%) of the votes represented by the Voting Shares for amendment of the amendments described in clause (i) or any provisions of the Articles relating to the power of the Board of Directors to fix the number of shares in, and to determine the designations, rights, privileges, restrictions and conditions attaching to, each series of Genstar's Preferred Shares and Second Preferred Shares or for the adoption of any plan or proposal for the continuation of the Corporation under the laws of another jurisdiction, unless such amendment is approved by two-thirds of the entire Board of Directors and a majority of the members of the Board of Directors acting on the matter were Continuing Directors; and (iii) require the affirmative vote of not less than two-thirds of the votes represented by the Voting Shares for the amendment of the By-Law Amendments described in Proposal 1, unless such amendment is approved by two-thirds of the entire Board of Directors and a majority of the members of the Board of Directors acting on the matter were Continuing Directors.

The text of the Article Amendments proposed to be adopted is set forth in Exhibit B to this Proxy Statement.

Fair Price Provision

80% Vote Required for Certain Business Combinations

At present, the Act requires that mergers, amalgamations, sales of substantially all of the assets of Genstar, the adoption of a plan of dissolution of Genstar, reclassifications of securities, capital reorganizations and recapitalizations of Genstar involving amendments to the Articles and the continuation of the Corporation under the laws of another jurisdiction be approved by a special resolution of shareholders, which must be adopted by two-thirds of the votes cast at a meeting of shareholders. Certain other transactions, such as sales of less than substantially all of the assets of Genstar, certain mergers or amalgamations involving a wholly-owned subsidiary of Genstar, and recapitalizations not involving an amendment to the Articles, do not require shareholder approval.

The Article Amendments would require the approval of not less than eighty percent (80%) of the votes represented by the Voting Shares as a condition of Business Combinations with an Interested Shareholder, except in cases in which either certain minimum price, form of consideration and procedural requirements are satisfied or the transaction is recommended to the shareholders by a majority of the Continuing Directors (the "Fair Price Provision"). In the event the minimum price, form of consideration and procedural requirements were met or the requisite approval of the Continuing Directors was received with respect to a particular Business Combination, the normal voting requirements of the Act would apply, and only two-thirds of the votes cast at a meeting of shareholders would be required to approve the Business Combination or, for certain transactions, no shareholder vote would be necessary. Nevertheless, the By-Law Amendments would still require a higher quorum at any meeting called to vote on any Business Combination required by law to be submitted to the shareholders which, although meeting the minimum price, form of consideration and procedural requirements, was not approved by a majority of the Continuing Directors. See "Higher Quorum for Certain Shareholder Actions" at page 17 of this Proxy Statement. Certain Business Combinations also may require the approval by series or class vote of outstanding Preferred Shares or Second Preferred Shares, if any. This requirement would remain unaffected by the Article Amendments.

Exceptions to Higher Vote Requirements

The eighty percent (80%) affirmative shareholder vote would not be required if either (A) the transaction had been approved by a majority of the Continuing Directors, even though less than a quorum, or (B) all of the form of consideration, minimum price and procedural requirements described below are satisfied.

(a) *Form of Consideration Requirements.* In a Business Combination involving cash or other consideration being paid to Genstar's shareholders, the consideration, in the case of each class of Voting Shares, must be either cash or the same type of consideration used by the Interested Shareholder in acquiring its shares of that class of Voting Shares. In addition, the value of such consideration (including cash) must meet certain minimum price requirements described below.

(b) *Minimum Price Requirement.* In the case of payments to holders of Genstar's Common Shares, the value per share of such payments would have to be at least equal in value to the higher of (i) the highest per share price paid by the Interested Shareholder (x) in acquiring any Common Shares during the two years prior to the first public announcement (the "Announcement Date") of the proposed Business Combination or (y) in the transaction in which it became an Interested Shareholder, whichever is higher, or (ii) the Fair Market Value (as defined) per share of such Common Shares on the Announcement Date.

In the case of payments, if any, to holders of any series of Genstar's Preferred Shares or Second Preferred Shares, the Fair Market Value per share of such payments would have to be at least equal to the higher of (a) the highest per share price determined with respect to such series of Preferred Shares or Second Preferred Shares in the same manner as described in clauses (i) and (ii) of the preceding subparagraph (b), or (b) the highest preferential amount per share to which the holders of such series of Preferred Shares or Second Preferred Shares would be entitled in the event of a voluntary or involuntary liquidation of Genstar.

The following example illustrates the operation of the Fair Price Provision in a transaction in which a person acquired three percent (3%) of the Common Shares by cash purchases in the open market at prices up to \$45.00 per share, became an Interested Shareholder a year later by purchasing twenty-five percent (25%) of the Common Shares in a cash tender offer at \$42.00 per share, and within six months announced a proposed Business Combination with Genstar at a time when the Common Shares were trading at \$35.00 per share:

(i)	highest price paid per share during the two-year period prior to the Announcement Date (\$45.00) or in the transaction in which the Interested Shareholder became an Interested Shareholder (\$42.00), whichever is higher	<u>\$45.00</u>
(ii)	Fair Market Value per share on the Announcement Date (\$35.00)	<u>\$35.00</u>

In this example, in order to comply with the Fair Price Provision's minimum price and form of consideration requirements, the Interested Shareholder would be required to pay to holders of Common Shares in the Business Combination at least \$45.00 per share (the higher of the two alternatives above) in cash.

It should be noted that, under the Fair Price Provision, the Interested Shareholder would be required to meet the minimum price requirements with respect to each class or series of Voting Shares, whether or not the Interested Shareholder owned shares of that class or series prior to proposing the Business Combination. If the minimum price and form of consideration requirements were not met with respect to each class or series of Voting Shares, or the procedural requirements (discussed below) were not met, then an affirmative vote of not less than eighty percent (80%) of the votes represented by the Voting Shares would be required to approve the Business Combination unless the transaction were approved by a majority of the Continuing Directors. It also should be noted that if the transaction does not involve any cash or other property being received by the shareholders of Genstar, as such, e.g., a sale of assets or an issuance of Genstar's securities to an Interested Shareholder, then the minimum price and form of consideration requirements would not apply, but an eighty percent (80%) vote still would be required.

(c) *Procedural Requirements.* An Interested Shareholder would have to comply with all of the procedural requirements described below.

(i) After the Interested Shareholder became an Interested Shareholder, Genstar must not have failed to pay full dividends (whether or not cumulative) on outstanding Preferred Shares or Second Preferred Shares, if any, or reduced the rate of dividends paid on its Common Shares, unless such failure or reduction was approved by a majority of the Continuing Directors. This provision is designed to prevent an Interested Shareholder from attempting to depress the market price of Genstar's shares prior to proposing a Business Combination by reducing dividends on Genstar's shares, thereby reducing the consideration required to be paid pursuant to the minimum price requirements of the Fair Price Provision.

(ii) The Interested Shareholder must not have acquired any additional Voting Shares, directly from Genstar or otherwise, in any transaction subsequent to the transaction pursuant to which it became an Interested Shareholder. This requirement is intended to prevent an Interested Shareholder from purchasing additional Voting Shares at prices which are lower than those set by the minimum price requirements of the Fair Price Provision unless the Interested Shareholder is prepared to acquire (or is assured of obtaining the affirmative vote of) at least eighty percent (80%) of the votes represented by the Voting Shares.

(iii) The Interested Shareholder must not have received (other than proportionately as a shareholder) at any time after it became an Interested Shareholder, whether in connection with the proposed Business Combination or otherwise, the benefit of any loans or other financial assistance or tax advantages provided by Genstar. This requirement is intended to deter an Interested Shareholder from self-dealing or otherwise taking advantage of its equity position in Genstar by using Genstar's resources to finance the proposed Business Combination or otherwise for its own purposes in a manner not proportionately available to all shareholders.

(iv) A proxy or information statement disclosing the terms and conditions of the proposed Business Combination complying with the requirements of applicable law would have to be mailed to all shareholders of Genstar at least 45 days prior to the consummation of the Business Combination. This requirement is intended to ensure that Genstar's shareholders would be fully informed of the terms and conditions of the proposed Business Combination.

In summary, none of the minimum price, form of consideration or procedural requirements would apply in the case of a Business Combination approved by a majority of the Continuing Directors. In the absence of such approval, all of such requirements would have to be satisfied to avoid the eighty percent (80%) vote requirement.

Effect of the Proposed Fair Price Provision Relating to Business Combinations

The Fair Price Provision is designed specifically to help assure that if Genstar is acquired or involved in a take-over transaction, each shareholder will be treated fairly vis-à-vis every other shareholder. The adoption of the Fair Price Provision, however, would not preclude the Board of Directors from either opposing or approving a future take-over proposal whether or not such a proposal satisfies the minimum price, form of consideration and procedural requirements of the Fair Price Provision.

A number of companies recently have been the subject of offers to purchase a controlling interest in their outstanding shares for cash. In many cases, such purchases have been followed by business combinations in which the purchaser has paid a lower price for the remaining outstanding shares than the price it paid in acquiring its original controlling interest and has paid that lower price in a different, less desirable form of consideration, usually non-voting securities of the purchaser that do not have an established trading market at the time they are issued in the business combination. United States and Canadian laws, regulations and policies of securities administrators applicable to business combinations govern the disclosure required to be made to minority shareholders in order to consummate such a transaction. In some cases in Canada, these laws also require that the business combination be integrated with the purchase of a controlling interest for cash, thus assuring the receipt by shareholders of consideration of equal value or require the preparation of evaluations and the approval of the business combination by a "majority of minority" of the shareholders of a corporation. However, these laws may not assure shareholders that the terms of the business combination (i.e., what shareholders will receive for their shares) will be fair from a financial standpoint. Moreover, the statutory rights of the remaining shareholders of the company to dissent in connection with certain business combinations and receive the "fair value" of their shares in such case may involve significant expense, delay and uncertainty to dissenting shareholders. Shareholders have no assurance that "fair value" as determined under the provisions of the Act would be equivalent to the minimum price requirements of the Article Amendments.

The Fair Price Provision is intended to meet these shortcomings in the United States and Canadian laws partially by requiring that, in order to complete a Business Combination which is not approved by a majority of the Continuing Directors, an Interested Shareholder must either acquire (or assure itself of obtaining the

affirmative votes of) at least eighty percent (80%) of the votes represented by the Voting Shares prior to the Business Combination, or be prepared to meet the minimum price, form of consideration and procedural requirements of the Fair Price Provision.

In the absence of adoption of the Fair Price Provision, an Interested Shareholder who acquired control of Genstar could in certain circumstances, by virtue of such control, subsequently force minority shareholders to sell or exchange their shares at a price which would not reflect any premium such Interested Shareholder may have paid in order to acquire its controlling interest but would instead effectively be set by such Interested Shareholder. Such a price might very well be lower than the price paid in acquiring control or be paid in a less desirable form (e.g., non-voting equity or debt securities instead of cash).

In many situations, the minimum price and procedural provisions of the Fair Price Provision would require that an Interested Shareholder pay shareholders a higher price for their shares and/or structure the transaction differently than would be the case without the Fair Price Provision. Accordingly, the Board of Directors believes that to the extent a Business Combination was involved as part of a plan to acquire control of Genstar, adoption of the Fair Price Provision would increase the likelihood that an Interested Shareholder would negotiate directly with Genstar and that shareholders would receive a higher price for their shares.

Assuming that certain purchases of Genstar's shares may be made with the objective of acquiring control of Genstar through a subsequent Business Combination, the Fair Price Provision would tend to discourage purchasers whose objective is to seek control of Genstar at a relatively low price, since acquiring the remaining equity interest would not be assured unless the minimum fair price and procedural requirements were satisfied or a majority of the Continuing Directors or not less than eighty percent (80%) of the votes represented by the Voting Shares were to approve the transaction. The Fair Price Provision also could discourage the accumulation of large blocks of Genstar's shares, which the Board of Directors believes to be disruptive to the stability of Genstar's vitally important relationships with its employees, customers and major lenders, and which can sometimes precipitate a change of control of Genstar on terms unfavorable to Genstar's other shareholders.

It is important to note that the Fair Price Provision provides that a Business Combination with an Interested Shareholder need not meet the minimum price, form of consideration and procedural requirements of the Fair Price Provision if the Business Combination is approved by a majority of the Continuing Directors. In this connection, the Board of Directors believes that the Continuing Directors will be in a better position than individual shareholders to negotiate effectively on behalf of all shareholders in that the Continuing Directors are likely to be more knowledgeable than the individual shareholder in assessing the business and prospects of Genstar. The Board of Directors is also of the view that the only meaningful negotiations likely to be conducted regarding such a Business Combination would be with the Continuing Directors. Although there is no requirement in the Fair Price Provision that a Business Combination negotiated by the Continuing Directors meet any minimum price or form of consideration requirements, the Board of Directors believes that the shareholders are more likely to be fairly treated in a transaction negotiated by the Continuing Directors than in one proposed by an Interested Shareholder without the approval of the Continuing Directors.

The Fair Price Provision is designed to protect minority shareholders from a purchaser utilizing two-tier pricing and similar, possibly inequitable, tactics in an attempt to take over Genstar. The Fair Price Provision is not designed to prevent tender offers or take-over bids for, or Business Combinations with, Genstar. The Fair Price Provision does not prevent a tender offer or take-over bid followed by a second-step Business Combination in which all shareholders receive substantially the same price for their shares or which the Board of Directors has approved in the manner described herein. Except for the restrictions on certain Business Combinations, the Fair Price Provision will not prevent a holder of a controlling interest from exercising control over Genstar or prevent such holder from increasing its share ownership interest.

It also should be noted that while the Fair Price Provision is designed to help assure fair treatment of all shareholders in the event of a take-over, the minimum price criteria of the Fair Price Provision does not assure that shareholders will receive a premium price for their shares in a take-over. Accordingly, the Board of Directors is of the view that the adoption of the Fair Price Provision would not preclude the Board of Directors'

opposition to any future take-over proposal which it believes not to be in the best interests of Genstar and its shareholders, whether or not such a proposal purports to satisfy the minimum price criteria and other requirements of the Fair Price Provision.

Tender offers, take-over bids or other non-open-market acquisitions of stock are usually made at prices above the prevailing market price of a company's shares. In addition, acquisitions of shares by persons attempting to acquire control through market purchases at least temporarily may cause the market price of the shares to reach levels which are higher than would otherwise be the case. The Fair Price Provision may discourage such purchases, particularly those of less than all Genstar's shares, and thereby may deprive holders of Genstar's shares of an opportunity to sell their shares at a temporarily higher market price. Because of the higher percentage requirements for shareholder approval of any subsequent Business Combination and the possibility of having to pay a higher price than it might otherwise offer to remaining shareholders in such a Business Combination, it may become more costly for a purchaser to acquire control of Genstar. The Fair Price Provision therefore may decrease the likelihood that a tender offer or take-over bid will be made and, as a result, may adversely affect those shareholders who would desire to participate in such a tender offer or take-over bid. A potential purchaser of shares seeking to obtain control also may be discouraged from purchasing shares because the affirmative vote of not less than eighty percent (80%) of the votes represented by the Voting Shares would be required in order to change or eliminate these provisions, unless such change or elimination was recommended by a majority of the Continuing Directors. The provisions of the Fair Price Provision would not necessarily discourage persons who might be willing to seek control by acquiring Voting Shares representing eighty percent (80%) of the votes.

In certain cases, the Fair Price Provision's minimum price requirements, while providing objective pricing criteria, could be arbitrary and not indicative of value. In addition, an Interested Shareholder may be unable to comply, as a practical matter, with the form of consideration and procedural requirements of the Fair Price Provision.

Another effect of adoption of the Fair Price Provision would be to give veto power to the holders of a minority of the Voting Shares with respect to a Business Combination which is opposed by the Continuing Directors but which the holders of a majority of shares may believe to be desirable and beneficial. (See "Voting Shares and Principal Holders Thereof" at page 10 of this Proxy Statement for information as to the ownership of Voting Shares by principal holders and Genstar directors and officers.) In addition, because in the absence of compliance with the minimum price and other requirements only the approval of a majority of the Continuing Directors will reduce the requisite shareholder vote required for business combinations, the Article Amendments may tend to insulate current directors, including Continuing Directors who may be officers of Genstar, against the possibility of removal in the event of a take-over bid.

Increased Shareholder Vote for Amendment of Certain Provisions of the Articles

As permitted by the Act, the Article Amendments would require the affirmative vote of not less than eighty percent (80%) of the votes represented by the Voting Shares for the amendment or repeal of, or adoption of any provisions inconsistent with, the Article Amendments. The requirement of an increased shareholder vote is designed to prevent a single shareholder or group of shareholders holding only two-thirds of the Voting Shares represented at a particular meeting from avoiding the requirements of the Article Amendments by simply amending some or all of their provisions again. In addition, the Article Amendments would require such eighty percent (80%) vote to continue Genstar under the laws of another jurisdiction. This provision is intended to prevent the avoidance of the requirements contained in the Amendments which would occur if Genstar were continued under the laws of a jurisdiction which would not give effect to the Amendments.

The Article Amendments also would require the affirmative vote of at least eighty percent (80%) of the votes represented by the Voting Shares for the amendment, alteration or repeal of, or adoption of any provision inconsistent with, the current provisions of the Articles giving the Board of Directors the power to fix the number of shares in, and to determine the designations, rights, privileges, restrictions and conditions attaching to, the shares of each series of Genstar's Preferred Shares and Second Preferred Shares. See "Overall Purposes and Effects of the Amendments," at page 15 of this Proxy Statement, for a description of such provision. This required vote also would be in addition to any separate vote of any class or series of Preferred Shares or Second Preferred Shares then outstanding which may be required.

The Board of Directors believes that the continued availability of Second Preferred Shares provides Genstar with important flexibility in structuring possible future financings, in taking advantage of attractive acquisition opportunities and in achieving other proper corporate purposes. The requirement of an increased shareholder vote to amend the provisions with respect to such shares is designed to prevent a single shareholder or group of shareholders holding only two-thirds of the Voting Shares represented at a particular meeting from removing such flexibility. The Board of Directors has no arrangements, agreements, understandings or plans at the present time for the issuance or use of such Second Preferred Shares except pursuant to its 1979 Stock Purchase Plan.

As discussed above at page 16 of this Proxy Statement, the terms of the Preferred Shares and the Second Preferred Shares, or of a series thereof, could under certain circumstances create an additional impediment to a person seeking to effect a take-over or otherwise gain control of Genstar. The Board of Directors does not intend, however, to issue any Preferred Shares or Second Preferred Shares except on terms which the Board of Directors deems to be in the best interests of Genstar and its shareholders.

This provision requiring a higher shareholder vote for the amendment of certain provisions of the Articles would be inapplicable where the proposed amendment or alteration was approved by two-thirds of the entire Board of Directors and a majority of the members of the Board acting upon such matter were Continuing Directors.

Increased Shareholder Vote for Amendment of Certain Provisions of the By-Laws

Under the Act, amendments to the By-laws ordinarily require the approval of a majority of the votes cast at a meeting of shareholders. The Act also permits inclusion in the Articles of a provision which requires a greater vote than the vote otherwise required by law. As permitted by these provisions of the Act, the Article Amendments would require the affirmative vote of the holders of at least two-thirds of the votes represented by the Voting Shares for the amendment, alteration or repeal of, or adoption of any provisions inconsistent with, the By-Law Amendments.

The requirement of an increased shareholder vote is designed to prevent a single shareholder or group of shareholders holding only a majority of the Voting Shares represented at a particular meeting from avoiding the requirements of the By-Law Amendments by simply amending some or all of their provisions again. This provision would be inapplicable, however, where the proposed amendment or alteration was approved by two-thirds of the entire Board of Directors and a majority of the Board acting on this matter were Continuing Directors.

In summary, to the extent the Article Amendments may restrict the ability of a substantial shareholder to take sudden control of Genstar and frustrate or remove the incumbent members of the Board of Directors, even where such shareholder is dissatisfied with their performance, the Article Amendments may make Genstar less attractive for a take-over and may have the effect of entrenching incumbent management and the Board of Directors or, at a minimum, it may encourage a substantial shareholder to first negotiate with Genstar in order to effectuate a Business Combination.

See pages 5 through 12 of this Proxy Statement for a discussion of the Common Shares, Preferred Shares and Second Preferred Shares of Genstar held by directors, officers and principal shareholders of Genstar. On March 1, 1985, the directors and officers as a group owned or had the right to acquire under options exercisable on or prior to March 22, 1985 (including the shares subject to an agreement with the private corporation and the holdings of the general partnership referred to on pages 11 and 12 of this Proxy Statement, which are attributable to such group), 1,160,682 Common Shares and 656,904 Second Preferred Shares which would be Voting Shares for purposes of the Article Amendments. Assuming all such options were exercised, these shares would represent approximately 5.1% of the votes represented by the Voting Shares.

The Special Resolution to approve the Article Amendments requires the affirmative vote of the holders of not less than two-thirds of the votes cast on the Special Resolution.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU **VOTE FOR** THE AMENDMENT TO THE ARTICLES CONCERNING HIGHER SHAREHOLDER VOTE FOR CERTAIN BUSINESS COMBINATIONS AND OTHER MATTERS.

STOCK OPTION, STOCK PURCHASE AND OTHER BENEFIT PLANS

Employee Incentive Stock Option Plan

The Genstar Employee Incentive Stock Option Plan (the “1965 Plan”) was adopted on November 17, 1965. Under the 1965 Plan, options with respect to common shares may be granted by the Board of Directors or a committee thereof to designated Genstar officers and employees covering a total of 462,000 common shares at an option price of not less than 90% of the last sale price of the common shares on a recognized stock exchange on the business day next preceding the date of the grant. The 1965 Option Plan grants to the Board of Directors, subject to the provisions of the Plan, the discretion to designate the term during which the option is exercisable and the number of shares in respect of which the option may be exercised during certain periods of the term set for exercise of the option. On July 19, 1984, the Board of Directors amended the stock option agreements under the 1965 Plan to provide that the options granted shall become immediately exercisable upon the occurrence of an event constituting a change of control (as defined below). Options granted on or after March 1, 1973 expire ten years from the date of the grant. Also, options expire upon termination of the optionee’s employment with Genstar, as a result of voluntary retirement (other than under the Genstar Retirement Plan) or dismissal for cause. A “change of control”, for purposes of the 1965 Plan, shall occur if (i) any person, partnership, corporation, trust or similar entity or group acquires after June 1, 1984, more than 25% of the voting securities of Genstar in a transaction or series of transactions not consented to by the Board of Directors, or (ii) at any time during any two-year period a majority of the Board of Directors is not comprised of individuals who were members of the Board of Directors at the commencement of such two-year period. For the purposes of the definition of change of control, the term “group” shall mean persons who act in concert as described in Section 14(d)(2) of the Securities Exchange Act of 1934, as amended. The 1965 Plan further provides that the options are non-transferable except to the optionee’s estate or heirs in the event of death.

No options were granted or exercised under the 1965 Option Plan for the period commencing January 1, 1984 and ending March 1, 1985.

1982 Employee Incentive Stock Option Plan

The 1982 Incentive Stock Option Plan (the “1982 Plan”) was approved by Genstar’s Board of Directors on September 22, 1982 and by the shareholders on May 11, 1983. Under the 1982 Plan, options to purchase up to 1,000,000 common shares and stock appreciation rights (“SAR’s”) may be granted by the Executive Remuneration Committee of the Board of Directors to officers and key employees of Genstar and its subsidiaries who make substantial contributions to the Corporation. Incentive stock options granted under the 1982 Plan are intended to meet the requirements of Section 422A of the U.S. Internal Revenue Code. The option price per share is the mean of the high and low selling prices of the common shares on the New York Stock Exchange on the date of the grant. Such options are exercisable within time periods specified by such Committee at the time of the grant, but no more than 10 years after such grant. The option price is payable in cash or in the discretion of such Committee in common shares surrendered by the participant at fair market value on the date of the exercise. The Committee, in its discretion, upon surrender of an option may authorize a cash payment equal to the excess of the aggregate fair market value of the shares covered by such option over the aggregate purchase price therefor; provided, however, that such cash payment may be in a higher amount in the event of the occurrence of a change of control of Genstar (the term “change of control” has generally the same meaning as in the 1965 Plan). Unexercised options terminate when a participant ceases to be an employee except under certain limited circumstances that may be specified in the terms of the option. Incentive Stock Options are transferable only upon death and are not exercisable while any other Incentive Stock Options previously granted to the employee remain unexercised. The fair market value of common shares for which an employee may be granted incentive stock options in any calendar year shall not exceed \$100,000 plus unused carryovers.

Non-qualified options and SAR's may also be granted under the 1982 Plan. Non-qualified options are subject to most of the same terms and conditions as incentive stock options except that no requirement exists (i) as to a minimum holding period, (ii) that such options be exercised in the sequence of grants and (iii) as to the aggregate fair market value of options which may be granted to one employee. SAR's may be granted in connection with all or any part of any option granted under the 1982 Plan either at the time of grant of such option or at any time during the term of such option. SAR's entitle the holder to surrender the related option and to receive, without payment to the Corporation, an amount equal to the excess of the fair market value of the common shares covered by such option on the effective date of such exercise, over the aggregate purchase price of such common shares, payable in the form of common shares or cash, or a combination thereof, as determined by the Executive Remuneration Committee. If a change of control of Genstar has occurred and, if the SAR relates to a non-qualified option, payment may be in a higher amount as determined in the 1982 Plan. To the extent that SAR's are exercised, the option in connection with such SAR's shall be deemed to have been exercised for purpose of the limitation as to the number of common shares for which options may be granted under the 1982 Plan.

During 1984, the Corporation granted to two officers options to purchase 2,400 common shares and to 85 other employees of the Corporation or its subsidiaries options to purchase a total of 53,425 common shares, all at a price of \$19.50 per share. During the 30 days preceding such grant, the high and low sales prices of Genstar's common shares on the New York Stock Exchange were, respectively, \$19.75 and \$18.50. During 1984, an officer of the Corporation exercised options to purchase 130 shares at \$10.88 per share and 425 shares at \$17.875 per share, totaling \$9,011.28. During the 30 days preceding such exercise, the high and low sales prices of Genstar's common shares on the New York Stock Exchange were, respectively, \$21.50 and \$18.50. No other options have been granted to or exercised by directors or officers of Genstar under the 1982 Plan since January 1, 1984.

The Revised 1969 Stock Purchase Plan

The 1969 Stock Purchase Plan (the "1969 Plan") was adopted by Genstar as of February 25, 1969. Revisions to the 1969 Plan were approved by the Board of Directors on March 10, 1983 and by the shareholders on May 11, 1983 (the "Revised 1969 Plan"). The Revised 1969 Plan authorized the Board of Directors or a committee thereof to issue up to 1,500,000 common shares to officers and employees of the Corporation and its subsidiaries.

The price per share at which shares may be purchased is set at the time of grant, but in no event is less than 90% of the mean of the high and low selling prices of Genstar common shares on The Toronto Stock Exchange on the last business day preceding the date of the resolution of the Directors authorizing the grant.

The Revised 1969 Plan provides that Genstar or any of its wholly-owned subsidiaries may lend to participants up to 99% of the purchase price at an interest rate of 5% per annum or any other rate authorized by the Board of Directors. The Revised 1969 Plan authorized the Directors to establish the terms for such loans, which must require the repayment of principal beginning not less than 30 months after the purchase date and the payment of installments aggregating not less than 17% of the loan amount within nine years of the purchase date, with the balance due no later than on the 10th anniversary of the purchase date. Under the Revised 1969 Plan, common shares which are subscribed for by a participant are to be held by the trustee under the 1969 Plan (the "Trustee") as collateral security for the participant's repayment of the principal and interest on the loan used to purchase the shares but can only be voted upon written instructions from the participant.

In the event that a participant defaults in payment of any installment on any loan made pursuant to the Revised 1969 Plan or ceases to be an employee of Genstar, or becomes bankrupt, or upon the occurrence of certain other events, then the entire balance of the loan made to such participant becomes immediately due and payable, and the Trustee shall, upon Genstar's instructions, sell the common shares held for the benefit of the participant and apply the proceeds thereof to the participant's liabilities. If there is a deficiency, the Directors have the discretion to determine that the deficiency no longer constitutes a debt to the Corporation. The trustee is Canada Permanent Trust Company, a Genstar subsidiary, and may be replaced by the Directors.

While the benefits conferred by the 1969 Plan are substantially similar to those of the Revised 1969 Plan, the 1969 Plan was structured somewhat differently. Under the 1969 Plan, the trustees, who presently are the members of Genstar's Executive Remuneration Committee, acquired common shares of Genstar (with funds provided by Genstar) for subsequent purchase by participants at the same price paid by the trustees. As with the Revised 1969 Plan, loans to participants of up to 99% of the purchase price could be made, with the balance payable upon such terms and conditions as the trustees determined. All presently outstanding loans provide for payment of the balance within seven years, with interest at the rate of 5% per annum payable on the unpaid balance.

From January 1, 1984 to March 1, 1985, six officers of the Corporation purchased 3,600 common shares and 65 other employees of Genstar or officers or employees of its subsidiaries purchased 61,675 common shares under the Revised 1969 Plan at a price per share of Cdn. \$25.62, and the Corporation made loans pursuant to the Revised 1969 Plan totalling Cdn. \$1,650,319 to such officers and employees of the Corporation or its subsidiaries in connection with the purchase of such 65,275 shares under the Revised 1969 Plan.

The 1979 Stock Purchase Plan

The 1979 Stock Purchase Plan was approved by the shareholders on May 9, 1979 (the "1979 Plan"). The 1979 Plan authorizes the Board of Directors to designate one or more series of the Second Preferred Shares available under the 1979 Plan for sale to officers and key employees of Genstar and its subsidiaries for the purpose of providing recognition and incentive to these employees. Not more than 2,000,000 Second Preferred Shares (convertible into not more than 2,000,000 common shares) may be awarded under the 1979 Plan. The terms of the Second Preferred Shares are established by the Board of Directors. However, all shares are entitled to one vote, non-cumulative dividends, priority over common shares on liquidation and each share may be converted at any time for a period of ten years into Genstar common shares. No award may be granted under the 1979 Plan after May 1, 1989. The price per share at which an award may be granted is established at the time of grant but may not be less than 25% (assuming an initial formulated conversion rate of approximately one quarter of a common share for each such Second Preferred Share) of the average per share selling price for board lots of common shares on the New York Stock Exchange on the business day preceeding the date of the resolution of the Directors authorizing the grant.

Within certain limits, based on prevailing market prices for Genstar's common shares, the Board may establish the conversion formula by designating particular series of shares to be issued under the 1979 Plan. With respect to all outstanding shares issued under the 1979 Plan, the maximum possible conversion ratio is one Second Preferred Share to two common shares. Such shares are not transferable except on death.

Under the 1979 Plan, Genstar or any of its subsidiaries may lend to participants up to 99% of the purchase price of the Second Preferred Shares at an interest rate set by the Board of Directors or pursuant to authority granted by the Board. Such loans are payable in annual installments, beginning two years after the purchase date, with installments aggregating 17% of the loan amount due nine years following the purchase date, and the balance due on the 10th anniversary of the purchase date. See "Indebtedness of Management" at page 31 of this Proxy Statement.

Pursuant to amendments to the 1979 Plan adopted by the Board of Directors on September 22, 1982, all participants in the 1979 Plan are required to enter into agreements with Genstar subordinating, to the right of the holders of Genstar's Preferred Shares and other Second Preferred Shares, the participants' rights to receive in respect of the Second Preferred Shares issued under the 1979 Plan any payment or any property or assets in the event of liquidation, dissolution or winding-up of Genstar or other distribution of assets of Genstar among shareholders for the purpose of winding up its affairs.

During the period from January 1, 1984 to March 1, 1985, Messrs. MacNaughton, Turner, Bannister, Holman and Michals purchased 21,250, 21,250, 3,000, 5,000 and 4,500 SP-84 shares, respectively, under the 1979 Plan. All officers and directors as a group purchased 68,500 SP-84 shares under the 1979 Plan. Each SP-84 share was convertible, on the date of issuance, into approximately one-half of a common share, and was issued at \$9.80 per share. From January 1, 1984 to March 1, 1985, the Corporation made loans pursuant to the 1979 Plan totalling \$792,168 to 21 officers, directors or employees of the Corporation or its subsidiaries in connection with the purchase of an aggregate of 81,650 SP-84 shares under the 1979 Plan at an interest rate of 10% calculated semi-annually.

Salaried Employees' Thrift Plan

Effective April 1, 1983, the Genstar Company Salaried Employees' Thrift Plan (the "Thrift Plan") was introduced for use by employees of the Corporation's United States subsidiaries. The Thrift Plan permits an employee to contribute from 3% to 6% of his or her regular earnings to an investment account, with the employer making a contribution of 25% of the employee's contribution. Effective January 1, 1984, the Thrift Plan was amended to raise the maximum employee contribution to 10% of his or her earnings; however, the employer's maximum contribution is 1.5% of the employee's earnings. The combined contributions are invested in either a short term investment fund, a diversified equity fund, a Genstar common share fund, or a combination of such funds, as chosen by the employee.

The employee's contribution is deducted from his or her taxable income, and, until withdrawal, the earnings of the employer's and employee's combined contributions accumulate tax free, pursuant to Section 401(k) of the U.S. Internal Revenue Code. Except for hardship withdrawals and termination of the plan, payments may be made only upon the employee's retirement, death or termination of employment. Upon distribution of an employee's entire account, the distributed amount is generally taxable as ordinary income, but may be subject to the moderating effect of a 10-year forward averaging rule.

During the period from January 1, 1984 to March 1, 1985, the Corporation contributed \$6,813, \$6,813, \$2,594, \$3,544 and \$3,133 for the accounts of Messrs. MacNaughton, Turner, Bannister, Holman and Michals, respectively, under the Thrift Plan and contributed \$34,260 for the accounts of all officers and directors as a group.

RETIREMENT PLANS

Employee Retirement Plans

Genstar and its subsidiaries maintain retirement plans for all salaried employees, including directors who are officers of Genstar. Contributions for all covered employees are determined by Genstar's actuaries. While under these plans benefits are based upon years of service and compensation, there are differences among the plans, including benefit formulations and related requirements as to employee contributions, and variations caused by differences in deductions and payments under the Canada Pension Plan and the United States Social Security program. No contribution was required to be made in 1984 to the plans for salaried employees under which officers and directors are entitled to receive benefits.

The Board of Directors of Genstar, subject to the approval of the Pension Benefit Guarantee Corporation and the Internal Revenue Service, has terminated as of December 31, 1984, the Restated Genstar Company and Affiliated Companies Retirement Plan (the "Former Retirement Plan") for its U.S. salaried employees. If the termination is so approved, each qualified participant in the Former Retirement Plan will become fully vested as of the termination date in the benefits accrued as of that date. Such vested benefits will be funded either through the purchase by Genstar of annuity contracts, or by such alternate insurance arrangement with a company as may be approved by the regulatory authorities. Termination of the Former Retirement Plan will permit the excess assets thereof to be recovered by Genstar after obtaining regulatory approvals.

On January 1, 1985, Genstar instituted a new defined benefit plan (the "1985 Retirement Plan") for U.S. salaried employees to replace the Former Retirement Plan. Covered employees under the Former Plan automatically became participants in the 1985 Retirement Plan. The 1985 Retirement Plan is similar to the Former Retirement Plan in all material respects except that the level of benefits under the 1985 Retirement Plan is higher for the same length of service and comparable compensation. The establishment of the 1985 Retirement Plan will require Genstar to make annual contributions to assure compliance with minimum funding rules. Under the 1985 Retirement Plan, full credit for vesting and benefit accrual purposes will be given to all participants under the Former Retirement Plan. As a result, benefits under the 1985 Retirement Plan will be offset by any benefits accrued and payable under the Former Retirement Plan.

The following tables set forth estimated annual retirement benefits which may be payable to Genstar employees in specified years-of-service and average salary classifications under the Corporation's Canadian Retirement Plan, the 1985 Retirement Plan and the Former Retirement Plan. Under the plans, average salary is based upon an employee's average earnings, excluding bonuses and directors' fees, in the highest 60 consecutive calendar months of earnings during his or her last 120 months preceding retirement. At present, the maximum benefit payable under retirement plans qualified under the Income Tax Act of Canada is approximately Cdn. \$60,000 per year and under the U.S. Internal Revenue Code is \$90,000 per year.

**Canadian Retirement Plan
(Cdn. \$)**

Average Salary	Years of Credited Service				
	15	20	25	30	35
\$ 50,000	\$ 13,128	\$ 17,504	\$ 21,880	\$ 26,256	\$ 30,632
100,000	28,128	37,504	46,880	56,256	65,632
200,000	58,128	77,504	96,880	116,256	135,632
300,000	88,128	117,504	146,880	176,256	205,632
400,000	108,128	157,504	196,880	236,256	275,632

**1985 Retirement Plan
(U.S. \$)**

Average Salary	Years of Credited Service				
	15	20	25	30	35
\$ 50,000	\$ 10,998	\$ 14,650	\$ 18,313	\$ 21,974	\$ 25,638
100,000	23,846	31,792	39,742	47,687	55,638
200,000	49,562	66,076	82,600	99,113	115,638
300,000	75,278	100,360	125,458	150,539	175,638
400,000	100,994	134,644	168,316	201,965	235,638

**Former Retirement Plan
(U.S. \$)**

Average Salary	Years of Credited Service				
	15	20	25	30	35
\$ 50,000	\$ 8,845	\$ 11,793	\$ 14,742	\$ 17,689	\$ 20,638
\$100,000	19,560	26,078	32,599	39,116	45,638
\$200,000	40,990	54,648	68,314	81,971	95,638
\$300,000	62,420	83,218	104,029	124,826	145,638
\$400,000	83,850	111,788	139,744	167,681	195,638

Supplemental Executive Retirement Plan

The Supplemental Executive Retirement Plan (the "SERP") is a non-qualified plan approved by the Board of Directors on July 19, 1984, intended to provide supplemental lifetime retirement income to designated executives to compensate for limitations of U.S. and Canadian tax legislation, absence of incentive compensation in the normal pension plans, and short-service executives. Participants in the SERP are the Corporation's executive officers and division presidents.

Benefits are based upon 60% of the average base salary and the average incentive award during the highest five years within the last ten years prior to retirement ("Average Compensation"). The average incentive award is subject to certain maximums as is the total annual benefit allowed, which cannot exceed 75% of final pre-retirement salary. The maximum benefit payable under the SERP is reduced by (i) pensions earned under the Corporation's retirement plans, (ii) one-half of the amount to be received from Social Security and Canadian federal and provincial pension plans, and (iii) the equivalent annuity value, if any, of retirement

programs provided by prior employers. An individual is not eligible to receive benefits under the SERP unless he (i) retires from a designated position, (ii) has participated in the plan for three years and (iii) has attained age 55. The maximum benefits described above are earned with a minimum of 15 years of service and full service with the Corporation until age 63.

The following table sets forth the maximum estimated annual benefits payable to SERP participants in the specified years of service and Average Compensation classifications, before deductions for pensions, social security or other retirement programs as described above.

**Supplemental Executive Retirement Plan
(U.S. \$)**

Average Compensation	Years of Credited Service		
	5 Yrs.	10 Yrs.	15 Yrs.
\$100,000	\$ 20,000	\$ 40,000	\$ 60,000
200,000	40,000	80,000	120,000
300,000	60,000	120,000	180,000
400,000	80,000	160,000	240,000
500,000	100,000	200,000	300,000

As of December 31, 1984, the total years of credited service under the Canadian Retirement Plan, the 1985 Retirement Plan and the Former Retirement Plan for Messrs. MacNaughton, Turner, Bannister, Holman and Michals were 28, 21, 17, 28 and 11, respectively. As of such date and of such persons, only Messrs. Bannister and Holman met all of the eligibility requirements for benefits payable under the SERP and, after deductions for payments to be received under the Corporation's retirement plans and United States and Canadian social security programs, Messrs. Bannister and Holman would be entitled to receive annually \$78,647 and \$54,016, respectively, under the SERP.

During 1984, the Corporation paid an aggregate of Cdn. \$151,921 on account of supplemental annual pensions previously awarded to two former officers who are directors of the Corporation, such pensions being payable monthly for the life of the respective recipients with payments guaranteed for a minimum of five years. These supplemental pensions are in addition to normal pension benefits payable to such persons under the Canadian Retirement Plan.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Genstar provides liability insurance for its directors and officers in those capacities as well as for the directors and officers of its subsidiaries. The premium for the year 1984 was \$121,950, which premium cannot be readily allocated as between the officers and directors of Genstar and its subsidiaries. Such premium was paid by Genstar. The policy will pay 100% of the excess over \$5,000 (per director or officer, subject to a maximum deductible of \$15,000 per loss) for each loss to a maximum annual limit of \$100 million. Under the policy Genstar is insured against any loss arising out of any liability to indemnify a director or an officer. Individual directors and officers are insured against any loss arising out of any wrongful act, excluding criminal acts and those acts which result in personal profit.

INDEBTEDNESS OF MANAGEMENT

Genstar has made housing assistance loans to those officers who have relocated to the Corporation's executive office in San Francisco, California. These loans, secured by mortgages or promissory notes, are repayable with interest at 6% per annum over a period of ten years. Loans also were made to officers in connection with the relocation of the Corporation's Registered Office to Vancouver, British Columbia, and in connection with the exercise of rights under the 1969 Stock Purchase Plan, 1979 Stock Purchase Plan and the Management Stock Purchase Plan, some at no interest and others at interest from 5% to 10% per annum, depending on the plan and the time at which stock purchases were made by an officer. On July 19, 1984 the Board of Directors adopted certain amendments to such housing assistance loans. The amendments provide that the maturity of the loans will not be accelerated upon the termination of the recipient's employment following a change of control. With respect to such housing assistance loans and indebtedness incurred in relation to such stock plans, the largest aggregate amount of indebtedness outstanding from January 1, 1984 to March 1, 1985 of Messrs. MacNaughton, Turner, Bannister, Holman and Michals was \$1,682,016, \$1,682,016, \$494,312, \$359,680 and \$346,645, respectively, and the amount of indebtedness outstanding as of March 1, 1985 was \$1,650,590, \$1,650,590, \$312,691, \$232,540 and \$335,099, respectively. The largest aggregate amount of such indebtedness outstanding from January 1, 1984 to March 1, 1985 of other officers of the Corporation, namely Messrs. John A. West, J. Ernest Hartz, Jr., Paul J. Kehoe, Richard D. Paterson, John H. Chase, Arthur W. Falk, Robert D. MacLean, C.J. Byrne McNamara, Lorimer E. Whitworth, Paul T. Côté, Bryan W. Bennett, Hugh W. McAdams, Henri P. Lafleur and Robert A. McCully was \$311,123, \$59,143, \$305,980, \$178,832, \$30,266, \$148,143, \$58,894, \$16,992, \$47,416, \$24,979, \$5,764, \$192,080, \$81,834, and \$13,581, respectively, and the amount of indebtedness outstanding as of March 1, 1985 was \$296,273, \$58,877, \$290,475, \$172,130, \$30,144, \$131,832, \$58,894, \$16,992, \$46,942, \$24,979, \$5,764, \$172,042, \$79,632 and \$1,266, respectively.

INTEREST OF DIRECTORS IN CERTAIN TRANSACTIONS

Genstar has a consulting agreement with a company in which Mr. de Bar, a director of Genstar, retains the beneficial interest. Under the agreement such company was paid fees totalling \$178,500 in respect of 1984. The consulting services provided by this company are independent of the services Mr. de Bar rendered as a director of Genstar. Unless earlier terminated, the consulting agreement will terminate on December 31, 1985. From April 1, 1983 until December 31, 1985, Genstar has paid and will continue to pay varying consulting fees under the agreement of at least \$150,000 per year.

Mr. Volk, a director of Genstar, is a partner of the firm of Shearman & Sterling, a law firm which Genstar has retained since 1969.

During December, 1984, a wholly-owned subsidiary of the Corporation and a wholly-owned subsidiary of Cimenteries CBR Cementbedrijven S.A. ("CBR"), a company controlled by SGB and of whose Board of Directors Messrs. de Bar and du Parc, directors of Genstar, are members, entered into a joint venture agreement (the "Agreement") to engage in the production and marketing of cement and cement-related products in the United States. Under the Agreement, CBR acquired a 13% equity interest in the joint venture for a purchase price of approximately \$10,000,000 with an option, exercisable for eight years, to purchase an additional 37% (up to a maximum of 50%) at the then market value, provided that the market value is at least equal to the then book value. The Genstar subsidiary contributed cement manufacturing assets consisting primarily of land, plant and equipment to the joint venture. The operations of the joint venture are conducted under the direction of a management committee. The Genstar subsidiary has the right to appoint a majority of the members of the management committee until CBR exercises its option and acquires 50% of the joint venture. In the event CBR exercises the option, CBR and the Genstar subsidiary each would have the right to appoint 50% of the members of the management committee. The transaction was approved by the disinterested directors of Genstar.

APPOINTMENT OF AUDITORS

If no contrary instruction is indicated in such proxy, the persons named in the printed portion of the accompanying form of proxy for use at the Annual and Special Meeting intend to vote such proxy in favour of the appointment of Messrs. Coopers & Lybrand, Chartered Accountants, as auditors of Genstar to hold office until the next Annual Meeting of Shareholders. Arrangements have been made for one or more representatives of Messrs. Coopers & Lybrand to attend the Annual and Special Meeting to answer appropriate questions.

PROPOSALS BY SHAREHOLDERS FOR 1986 ANNUAL MEETING

If any shareholder wishes to present a proposal for action at the 1986 Annual Meeting, such proposal must be received by the Secretary of the Corporation at Genstar's Registered Office, no later than February 7, 1986, in order to be considered for inclusion in the Corporation's proxy statement and form of proxy. Shareholders desiring to suggest candidates for director nominees should advise the Secretary of the Corporation, in writing, by December 31 of the year preceding the Annual Meeting of Shareholders and include sufficient biographical material to permit an appropriate evaluation.

OTHER MATTERS

As of the date of mailing of this Proxy Statement to shareholders, the Board of Directors and management of Genstar know of no amendment or variation of the matters referred to in the Notice of Meeting. However, if any such amendment or variation or other business should properly be brought before the meeting, the accompanying form of proxy confers discretionary authority upon the persons named therein to vote upon any such amendment or variation of the matters referred to in the Notice of Meeting or on such other business in accordance with their best judgment.

The contents of this proxy statement and the sending thereof have been approved by the directors of Genstar.

Dated at Vancouver, British Columbia, Canada as of March 1, 1985.



Paul T. Côté
Secretary

RESOLUTION CONFIRMING AMENDMENTS TO BY-LAWS

Resolved that the following text of sections (a) and (c) of Article I of By-law CBCA I of the Corporation, as amended by the Directors on July 19, 1984 and further amended on March 6, 1985, is hereby confirmed, to wit:

“(a) PLACE, TIME AND NOTICE

Subject to the laws governing the Corporation, meetings of shareholders of the Corporation shall be held at the registered office of the Corporation or at such other place and at such time as the Board of Directors, or the Chairman of the Board, if any, or in his absence or in the event of his inability or refusal or failure to act, the Deputy Chairman of the Board, if any, or in his absence or in the event of his inability or refusal or failure to act, the Vice Chairman of the Board, if any, or in his absence or in the event of his inability or refusal or failure to act, the President or a Vice President who is a director, may determine from time to time. Notice of the time and place of a meeting of shareholders called at the will of the directors pursuant to the Canada Business Corporations Act shall be sent, at the discretion of the persons referred to above, not less than twenty-one (21) days nor more than fifty (50) days before the meeting. Notice of the time and place of a meeting of shareholders called upon the requisition of the shareholders pursuant to such Act shall be sent, at the discretion of the persons referred to above, not less than forty-five (45) days nor more than fifty (50) days before the meeting.

(c) QUORUM, VOTING AND ADJOURNMENTS

(A) Two (2) or more persons personally present, each of whom shall be entitled to vote thereat either personally or as the proxy of a shareholder or as the authorized representative of a body corporate or association that is a shareholder entitled to vote thereat, and representing either in their own right or by proxy or as such an authorized representative (i) in the case of an annual meeting, not less than fifteen percent (15%) of the votes that may be cast by the holders of the Quorum Shares (as defined in paragraph D) including not less than 25% of the votes that may be cast by the holders of the Registered Quorum Shares (as defined below) or (ii) in the case of a special meeting, not less than twenty-five percent (25%) of the votes that may be cast by the holders of the Quorum Shares, including not less than fifty percent (50%) of the votes that may be cast by the holders of the Registered Quorum Shares, shall constitute a quorum for an annual meeting of shareholders of the Corporation or for a special meeting of the shareholders of the Corporation or any class or series of them, respectively, *subject, however*, to (a) any special provisions set forth in the Articles of the Corporation with respect to any particular class or series of the shares of the Corporation and (b) the higher quorum requirements set forth in paragraph (B) below with respect to transacting any business specified therein. If at any such meeting a quorum shall not be present within thirty (30) minutes after the time appointed for the meeting, then the meeting shall be adjourned to such date being not less than seven (7) days later and to such time and place as may be determined by the Chairman of the meeting, with or without notice as he may decide, provided that if any notice be given it shall not be necessary in such notice to specify the purpose for which the meeting was originally called. At such adjourned meeting the holders of shares entitled to vote who are present or represented shall constitute a quorum thereat and may transact the business for which the meeting was originally called, *provided, however*, that at any such adjourned meeting the holders of not less than the percentage of shares specified in paragraph (B) below shall constitute a quorum for the purpose of transacting any business specified in such paragraph. Registered Quorum Shares, as used in this Article 1(c), mean all those Quorum Shares of the Corporation which are not represented by bearer share warrants.

(B) Two (2) or more persons representing not less than two-thirds of the votes that may be cast by the holders of the Quorum Shares shall constitute a quorum for the purpose of considering and voting on any resolution that (1) is submitted to the shareholders of the Corporation at an annual or special meeting of shareholders; (2) has not been approved by the affirmative vote of a majority of the Continuing Directors (as defined in paragraph D below); and (3) relates to any of the matters listed below:

- (i) the removal of any director or directors from office;
- (ii) the election of any director or directors;

(iii) the adoption of any plan or proposal for the continuation of the Corporation under the laws of another jurisdiction;

(iv) any merger, amalgamation or consolidation of the Corporation or any Subsidiary (as defined in paragraph D) with (i) an Interested Shareholder (as defined in paragraph D) or (ii) any other corporation (whether or not itself an Interested Shareholder) which is, or after such merger, amalgamation or consolidation would be, an Affiliate or Associate (as such terms are defined in paragraph D) of an Interested Shareholder;

(v) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with an Interested Shareholder or an Affiliate or Associate of an Interested Shareholder of any assets of the Corporation or any Subsidiary, having an aggregate Fair Market Value (as defined in paragraph D) of not less than ten million dollars (\$10,000,000);

(vi) the issuance or transfer by the Corporation or any Subsidiary (in one transaction or a series of transactions) of any securities of the Corporation or any Subsidiary to an Interested Shareholder or an Affiliate or Associate of an Interested Shareholder in exchange for cash, securities or other property (or a combination thereof) having an aggregate Fair Market Value of not less than ten million dollars (\$10,000,000);

(vii) the adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of an Interested Shareholder or an Affiliate or Associate of an Interested Shareholder;

(viii) any reclassification of securities (including any subdivision or consolidation), capital reorganization or recapitalization of the Corporation, or any merger, amalgamation or consolidation of the Corporation with any Subsidiaries or any other transaction (whether or not with or into or otherwise involving any Interested Shareholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of shares carrying voting rights or any securities convertible into shares of any class of shares carrying voting rights of the Corporation or any Subsidiary which are directly or indirectly owned by an Interested Shareholder or an Affiliate or Associate of an Interested Shareholder;

(ix) any agreement, contract or other arrangement providing for any one or more of the actions specified in clauses (iii) through (viii) above; or

(x) the confirmation, amendment, alteration or repeal of, or adoption of any provision inconsistent with, Article 1(a) or Article 1(c) hereof, or the amendment, alteration, change or repeal of, or the adoption of any provision inconsistent with, any provision of the Corporation's Articles.

(C) In the event that a transaction referred to in any one of clauses (v), (vi) and (ix) of Article 1(c)(B) hereof is not required by the corporate laws governing the Corporation to be submitted to the shareholders of the Corporation and has not been approved by the affirmative vote of a majority of the Continuing Directors, such transaction shall be submitted to the holders of Voting Shares for their approval as required by the Articles of the Corporation and the provisions of Article 1(c)(B) hereof shall apply to any meeting of such holders called for such purpose.

(D) For purposes of this Article 1(c):

1. "Affiliate" and "Associate" means a person who is an affiliate and associate, respectively, within the meaning of either (a) the Canada Business Corporations Act, as amended, as in effect on June 1, 1984, or (b) Rule 12b-2 of the General Rules and Regulations under the United States Securities Exchange Act of 1934, as amended, as in effect on June 1, 1984.

2. "Beneficial Owner" means a person who either (a) has beneficial ownership within the meaning of the Canada Business Corporations Act, as amended, as in effect on June 1, 1984, or (b) is a beneficial owner within the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the United States Securities Exchange Act of 1934, as amended, as in effect on June 1, 1984.

3. "Continuing Director" means (a) any member of the Board of Directors of the Corporation who (i) is neither an Interested Shareholder involved in or proposing the Significant Action as to which a vote of Continuing Directors is provided for hereunder, nor an Affiliate, Associate, employee, agent, or nominee of such Interested Shareholder, or the relative of any of the foregoing, and (ii) was a member of the Board of Directors prior to the time that such Interested Shareholder became an Interested Shareholder, and (b) any successor of a Continuing Director described in clause (a) who is recommended or elected to succeed a Continuing Director by the affirmative vote of a majority of Continuing Directors then on the Board of Directors.

4. "Fair Market Value" means (i) in the case of shares, the highest closing sale price during the thirty (30) day period immediately preceding the date in question of such shares on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such shares are not reported on the Composite Tape, on the New York Stock Exchange, or, if such shares are not listed on such Exchange, on the principal securities exchange on which such shares are listed, or, if such shares are not listed on any such exchange, the highest closing bid quotation with respect to such shares during the 30 day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or, if no such quotation is available, the fair market value on the date in question of such shares as determined by a majority of the Continuing Directors in good faith; and (ii) in the case of property other than cash or shares, the fair market value of such property on the date in question as determined by a majority of the Continuing Directors in good faith.

5. "Interested Shareholder" means any person (other than the Corporation, any Subsidiary and any person which became an Interested Shareholder prior to June 1, 1984) who or which:

(i) is the Beneficial Owner of shares representing more than ten percent (10%) of the votes that may be cast by the holders of Voting Shares; or

(ii) is an Affiliate or Associate of the Corporation and at any time within the two-year period immediately prior to the date in question was the Beneficial Owner of shares representing ten percent (10%) or more of the votes that may be cast by the holders of Voting Shares; or

(iii) is an assignee of, or has otherwise succeeded to, any Voting Shares of which an Interested Shareholder was the Beneficial Owner at any time within the two-year period immediately prior to the date in question, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a distribution, or deemed distribution, to the public within the meaning of the Canada Business Corporations Act, as amended, as in effect on June 1, 1984.

6. For the purposes of determining whether a person is an Interested Shareholder pursuant to paragraph 5 of this Article 1(c)(D), the number of Voting Shares deemed to be outstanding shall include shares deemed owned by such person through application of paragraph 2 of this Article 1(c)(D) but shall not include any other Voting Shares which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

7. A "person" includes any individual, partnership, firm, body corporate, association, trust, trustee, executor, administrator, legal representative, unincorporated organization or other entity, as well as any syndicate or group deemed to be a person for purposes of Section 14(d)(2) of the United States Securities Exchange Act of 1934, as amended, as in effect on June 1, 1984.

8. "Quorum Shares" means the outstanding shares of the Corporation entitled to vote at the meeting sought to be held.

9. "Significant Action" means any action or transaction which is referred to in any one or more of clauses (i) through (x) of Article 1(c)(B) hereof.

10. "Subsidiary" means any corporation of which a majority of any class of shares carrying voting rights is owned, directly or indirectly, by the Corporation; *provided, however*, that for the purposes of the definition of Interested Shareholder set forth in paragraph 5 of this Article 1(c)(D), the term "Subsidiary" shall mean only a corporation of which a majority of each class of shares carrying voting rights is owned, directly or indirectly, by the Corporation.

11. "Voting Shares" means the outstanding shares of the Corporation entitled to vote generally in the election of directors.

SPECIAL RESOLUTION TO AMEND ARTICLES

RESOLVED as a Special Resolution that the Corporation is hereby authorized to apply for a Certificate of Amendment under Section 167 of the Canada Business Corporations Act amending the Articles of the Corporation to require (a) that specified business combinations involving the Corporation and an Interested Shareholder (as defined in the Articles of Amendment hereinafter referred to) must satisfy certain form of consideration, minimum price and procedural requirements, unless approved by either a majority of the Continuing Directors (as defined in the Articles of Amendment hereinafter referred to) or not less than 80% of the votes that may be cast by the holders of the outstanding shares of the Corporation entitled to vote generally in the election of directors ("Voting Shares"), (b) the affirmative vote of the holders of not less than 80% of the votes that may be cast by the holders of the Voting Shares for the amendment or repeal of the provision described in (a) above or any provisions of the Articles relating to the power of the Board of Directors to fix the number of shares in, and to determine the designation, rights, privileges, restrictions and conditions attaching to the shares of, each series of the Corporation's Preferred Shares and Second Preferred Shares or for the adoption of any plan or proposal for the continuation of the Corporation under the laws of another jurisdiction, unless the foregoing is approved by two-thirds of the entire Board of Directors and a majority of the Board of Directors acting on the matter were Continuing Directors and (c) the affirmative vote of the holders of not less than two-thirds of the votes that may be cast by the holders of the Voting Shares for the amendment of sections (a) and (c) of Article I of By-law CBCA 1 of the Corporation, unless such amendment is approved by two-thirds of the entire Board of Directors and a majority of the members of the Board of Directors acting on the matter were Continuing Directors, all as set out in the Articles of Amendment of the Corporation submitted to this meeting;

THAT the Articles of Amendment of the Corporation submitted to this meeting and which form part of this Special Resolution be and the same are hereby approved;

THAT the Directors of the Corporation may, notwithstanding that this Special Resolution has been duly passed by the shareholders of the Corporation, revoke this Special Resolution before it is acted upon without further approval of the shareholders; and

THAT any director or any officer of the Corporation be and is hereby authorized to sign and deliver for and on behalf of the Corporation all such notices, documents and instruments, including Articles of Amendment and to do such other acts and things as may be considered necessary or desirable to give effect to this Special Resolution.

**LOI SUR LES SOCIÉTÉS
COMMERCIALES CANADIENNES**

FORMULE 4

**CLAUSES MODIFICATRICES
(ARTICLE 27 OU 171)**

**CANADA BUSINESS
CORPORATIONS ACT**

FORM 4

**ARTICLES OF AMENDMENT
(SECTION 27 OR 171)**

1—Dénomination de la société—Name of Corporation

**GENSTAR CORPORATION
CORPORATION GENSTAR**

2—N° de la société—Corporation No.

142022-4

3—Les statuts de la société ci-haut mentionnée sont modifiés de la façon suivante:

The articles of the above-named corporation are amended as follows:

By adding to Section 7 thereof the following:

"The Annexed Schedule 2 is incorporated in this Form."

Date	Signature	Description du poste—Description of Office

À L'USAGE DU MINISTÈRE SEULEMENT

For Departmental Use Only

Déposée—Filed

SCHEDULE 2

Higher Shareholder Vote for Certain Business Combinations and Certain Amendments to the Articles and By-Laws.

Section 1. *Higher Vote for Business Combinations.* In addition to any affirmative vote required by law or by these Articles, and except as otherwise expressly provided in Section 2 of this Schedule 2:

A. any merger, amalgamation or consolidation of the Corporation or any Subsidiary (as hereinafter defined in Section 3) with (i) an Interested Shareholder (as hereinafter defined in Section 3) or (ii) any other corporation (whether or not itself an Interested Shareholder) which is, or after such merger, amalgamation or consolidation would be, an Affiliate or Associate (as such terms are hereinafter defined in Section 3) of an Interested Shareholder; or

B. any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with an Interested Shareholder or an Affiliate or Associate of an Interested Shareholder of any assets of the Corporation or any Subsidiary, having an aggregate Fair Market Value (as hereinafter defined in Section 3) of not less than \$10,000,000; or

C. the issuance or transfer by the Corporation or any Subsidiary (in one transaction or a series of transactions) of any securities of the Corporation or any Subsidiary to an Interested Shareholder or an Affiliate or Associate of an Interested Shareholder in exchange for cash, securities or other property (or a combination thereof) having an aggregate Fair Market Value of not less than \$10,000,000; or

D. the adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of an Interested Shareholder or an Affiliate or Associate of an Interested Shareholder; or

E. any reclassification of securities (including any subdivision or consolidation), capital reorganization or recapitalization of the Corporation, or any merger, amalgamation or consolidation of the Corporation with any Subsidiaries or any other transaction (whether or not with or into or otherwise involving any Interested Shareholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of shares carrying voting rights or any securities convertible into shares of any class of shares carrying voting rights of the Corporation or any Subsidiary which are directly or indirectly owned by an Interested Shareholder or an Affiliate or Associate of an Interested Shareholder; or

F. any agreement, contract or other arrangement providing for any one or more of the actions specified in clauses (A) through (E) of this Section 1;

shall require the affirmative vote of not less than 80% of the votes that may be cast by the holders of the Voting Shares (as hereinafter defined in Section 3), voting together as a single class. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser vote may be otherwise specified, by law or in any agreement with any national securities exchange or otherwise.

Section 2. *When Higher Vote Is Not Required.* The provisions of Section 1 of this Schedule 2 shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote, if any, of the shareholders as is required by law and any other provision of the Articles or the By-laws of the Corporation, if the conditions specified in either of the following paragraphs A and B are met:

A. *Approval by Continuing Directors.* The Business Combination shall have been approved by the affirmative vote of a majority of the Continuing Directors (as hereinafter defined in Section 3), even if the Continuing Directors do not constitute a quorum of the entire Board of Directors.

B. *Form of Consideration, Price and Procedure Requirements.* All of the following conditions shall have been met:

(i) Each holder of shares of any class of Voting Shares (including Common Shares) shall be entitled to receive, with respect to each such share, on or before the date of the consummation of the Business Combination (the "Consummation Date"), cash and consideration other than cash with an aggregate Fair Market Value as of the Consummation Date at least equal to the highest of the following:

(a) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Shareholder to which the Business Combination relates, or by any Affiliate or Associate of such Interested Shareholder, for any shares of such class of Voting Shares acquired by it (1) within the two-year period immediately prior to the first public announcement of the proposal of the Business Combination (the "Announcement Date") or (2) in the transaction in which the Interested Shareholder became an Interested Shareholder, whichever is higher;

(b) the Fair Market Value per share of such class of Voting Shares on the Announcement Date; or

(c) the highest preferential amount per share, if any, to which the holders of shares of such class of Voting Shares are entitled in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation.

(ii) The consideration to be received by holders of a particular class of outstanding Voting Shares (including Common Shares) as described in subsection 2(B)(i) hereof shall be in cash or in the same form as the consideration previously paid by or on behalf of the Interested Shareholder in connection with its acquisition of beneficial ownership of shares of such class of Voting Shares. If such payment for shares of any class of Voting Shares has been made with varying forms of consideration, the form of consideration for such class of Voting Shares shall be either cash or the form used to acquire beneficial ownership of the largest number of shares of such class of Voting Shares previously acquired by the Interested Shareholder.

(iii) After such Interested Shareholder has become an Interested Shareholder and prior to the consummation of such Business Combination: (a) except as approved by the affirmative vote of a majority of the Continuing Directors, there shall have been no failure to declare and pay at the regular date therefor any full dividends (whether or not cumulative) on the outstanding Preferred Shares or Second Preferred Shares; (b) there shall have been (1) no reduction in the annual rate of dividends paid on the Common Shares (except as necessary to reflect any subdivision of the Common Shares), except as approved by the affirmative vote of a majority of the Continuing Directors, and (2) an increase in such annual rate of dividends as necessary to reflect any reclassification (including any consolidation), recapitalization, capital reorganization or any similar transaction which has the effect of reducing the number of outstanding Common Shares, unless the failure so to increase such annual rate is approved by the affirmative vote of a majority of the Continuing Directors; and (c) such Interested Shareholder shall not have become the Beneficial Owner (as hereinafter defined) of any additional Voting Shares except as part of the transaction which results in such Interested Shareholder becoming an Interested Shareholder.

(iv) After such Interested Shareholder has become an Interested Shareholder, such Interested Shareholder shall not have received the benefit, directly or indirectly (except proportionately as a shareholder of the Corporation), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the Corporation.

(v) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Canada Business Corporations Act and, to the extent that the corporation is subject thereto, with the United States Securities Exchange Act of 1934, as amended, and the general rules and regulations thereunder (or any subsequent provisions replacing such

legislation, rules or regulations) shall be mailed to the shareholders of the Corporation at least 45 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such legislation, rules and regulations).

Section 3. *Certain Definitions.* For the purposes of this Schedule 2:

A. A “person” shall mean any individual, partnership, firm, body corporate, association, trust, trustee, executor, administrator, legal representative, unincorporated organization or other entity, as well as any syndicate or group deemed to be a person for purposes of Section 14(d)(2) of the United States Securities Exchange Act of 1934, as amended, as in effect on June 1, 1984.

B. “Interested Shareholder” shall mean any person (other than the Corporation, any Subsidiary and any person which became an Interested Shareholder prior to June 1, 1984) who or which:

(i) is the Beneficial Owner of shares representing more than 10% of the votes that may be cast by the holders of Voting Shares; or

(ii) is an Affiliate or Associate of the Corporation and at any time within the two-year period immediately prior to the date in question was the Beneficial Owner of shares representing 10% or more of the votes that may be cast by the holders of Voting Shares; or

(iii) is an assignee of or has otherwise succeeded to any Voting Shares of which an Interested Shareholder was the Beneficial Owner at any time within the two year period immediately prior to the date in question, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a distribution, or deemed distribution, to the public within the meaning of the Canada Business Corporations Act, as amended, as in effect on June 1, 1984.

C. “Beneficial Owner” shall mean a person who either (a) has beneficial ownership within the meaning of the Canada Business Corporations Act, as amended, as in effect on June 1, 1984 or (b) is a beneficial owner within the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the United States Securities Exchange Act of 1934, as amended, as in effect on June 1, 1984.

D. For the purposes of determining whether a person is an Interested Shareholder pursuant to paragraph B of this Section 3, the number of Voting Shares deemed to be outstanding shall include shares deemed owned by such person through the application of paragraph C of this Section 3 but shall not include any other Voting Shares which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise, to any person who is not the Interested Shareholder.

E. “Affiliate” and “Associate” shall mean a person who is an affiliate and associate, respectively, within the meaning of either (a) the Canada Business Corporations Act, as amended, as in effect on June 1, 1984 or (b) Rule 12b-2 of the General Rules and Regulations under the United States Securities Exchange Act of 1934, as amended, as in effect on June 1, 1984.

F. “Subsidiary” shall mean any corporation of which a majority of any class of shares carrying voting rights is owned, directly or indirectly, by the Corporation; *provided, however*, that for the purposes of the definition of Interested Shareholder set forth in paragraph B of this Section 3, the term “Subsidiary” shall mean only a corporation of which a majority of each class of shares carrying voting rights is owned, directly or indirectly, by the Corporation.

G. “Continuing Director” shall mean (a) any member of the Board of Directors of the Corporation who (i) is neither the Interested Shareholder involved in or proposing the Business Combination as to which a vote of Continuing Directors is provided hereunder, nor an Affiliate, Associate, employee, agent, or nominee of such Interested Shareholder, or the relative of any of the foregoing, and (ii) was a member of the Board of Directors prior to the time that such Interested Shareholder became an Interested Shareholder, and (b) any successor of a Continuing Director described in clause (a) who is recommended or elected to succeed a Continuing Director by the affirmative vote of a majority of Continuing Directors then on the Board of Directors.

H. "Fair Market Value" shall mean: (i) in the case of shares, the highest closing sale price during the 30-day period immediately preceding the date in question of such shares on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such shares are not reported on the Composite Tape, on the New York Stock Exchange, or, if such shares are not listed on such Exchange, on the principal securities exchange on which such shares are listed, or, if such shares are not listed on any such exchange, the highest closing bid quotation with respect to such shares during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or, if no such quotation is available, the fair market value on the date in question of such shares as determined by a majority of the Continuing Directors in good faith; and (ii) in the case of property other than cash or shares, the fair market value of such property on the date in question as determined by a majority of the Continuing Directors in good faith.

I. "Business Combination" shall mean any transaction which is referred to in any one or more of paragraphs A through F of Section 1 of this Schedule 2.

J. In the event of any Business Combination in which the Corporation survives, the phrase "consideration other than cash" as used in paragraph B(i) of Section 2 of this Schedule 2 shall include the Common Shares and/or the shares of any other class of Voting Shares retained by the holders of such shares.

K. A "class of Voting Shares" shall include a series of a class of Voting Shares.

L. "Voting Shares" means the outstanding shares of the Corporation entitled to vote generally in the election of directors.

Section 4. *Powers of Continuing Directors.* A majority of the Continuing Directors of the Corporation shall have the power and duty to determine, on the basis of information known to them after reasonable inquiry, all facts necessary to determine compliance with this Schedule 2, including, without limitation, (A) whether a person is an Interested Shareholder, (B) the number of Voting Shares beneficially owned by any person, (C) whether a person is an Affiliate or Associate of another, (D) whether the requirements of paragraph B of Section 2 have been met with respect to any Business Combination, and (E) whether the assets which are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the Corporation or any Subsidiary in any Business Combination has, an aggregate Fair Market Value of not less than \$10,000,000; and the good faith determination of a majority of the Continuing Directors on such matters shall be conclusive and binding for all the purposes of this Schedule 2.

Section 5. *No Effect on Fiduciary Obligations.*

A. Nothing contained in this Schedule 2 shall be construed to relieve any Interested Shareholder from any fiduciary obligation imposed by law.

B. The fact that any Business Combination complies with the provisions of Section 2 of this Schedule 2 shall not be construed to impose any fiduciary duty, obligation or responsibility on the Board of Directors, or any member thereof, to approve such Business Combination or recommend its adoption or approval to the shareholders of the Corporation, nor shall such compliance limit, prohibit or otherwise restrict in any manner the Board of Directors, or any member thereof, with respect to evaluations of or actions and responses taken with respect to such Business Combinations.

Section 6. *Amendment or Repeal or Continuation.*

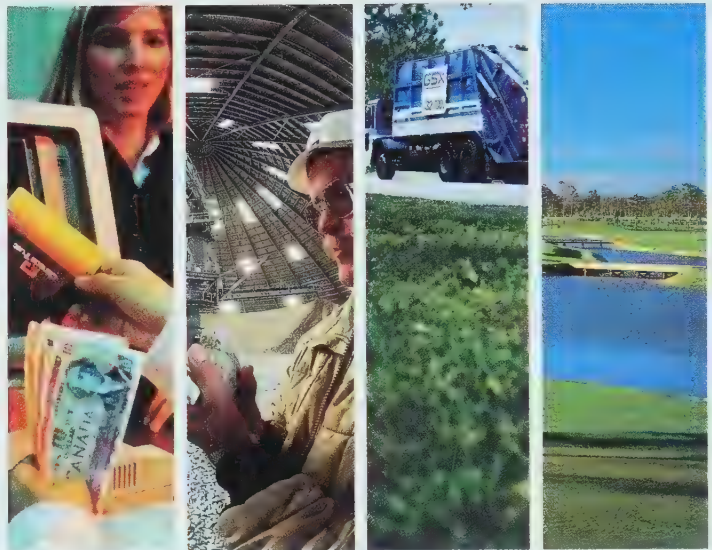
A. The affirmative vote of the holders of outstanding shares representing not less than 80% of the votes that may be cast by the holders of Voting Shares shall be required (a) to amend, alter or repeal, or adopt any provision or provisions inconsistent with, (i) any provision or provisions of this Schedule 2 (other than subsection 6(B)) or (ii) any provision or provisions of Schedule 1 of these Articles relating to the power of the Board of Directors to fix the number of shares in, and to determine the designation, rights, privileges, restrictions and conditions attaching to the shares of, each series of the Preferred Shares and Second Preferred Shares of the Corporation or (b) to adopt any plan or proposal for the continuation of the Corporation under the laws of another jurisdiction; provided, however, that this Section 6(A) shall not apply to, and such 80% vote shall not be required for, any amendment, alteration, repeal, or adoption of any

inconsistent provision or provisions, or the adoption of any plan or proposal declared advisable by the Board of Directors by the affirmative vote of two-thirds of the entire Board of Directors, but only if a majority of the members of the Board of Directors acting upon such matter shall be Continuing Directors, and submitted to the shareholders for their consideration at an annual or special meeting of shareholders.

B. The affirmative vote of the holders of outstanding shares representing not less than two-thirds of the votes that may be cast by holders of the Voting Shares shall be required to amend, alter or repeal, or adopt any provision or provisions inconsistent with, any provision or provisions of Section (a) or Section (c) of Article 1 of By-law CBCA I of the Corporation or to amend, alter, repeal or adopt any provision or provisions inconsistent with this subsection 6(B); provided, however, that this subsection 6(B) shall not apply to, and such two-thirds vote shall not be required for, any amendment, alteration, repeal, or adoption of any inconsistent provision or provisions, declared advisable by the Board of Directors by the affirmative vote of two-thirds of the entire Board of Directors, but only if a majority of the members of the Board of Directors acting upon such matter shall be Continuing Directors, and submitted to the shareholders for their consideration at an annual or special meeting of shareholders.



Genstar Corporation



Annual Report 1985

GENSTAR

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For the years ended December 31		1985	1984	1983
		(millions of Canadian dollars)		
Revenues		\$4,032	\$3,059	\$2,872
Operating Income		388	329	300
Net Income		171	132	103
Dividends on Common Shares		37	27	22
Funds Generated by Operations		278	225	186
Per Common Share:				
Net Income	Canadian Method			
	Basic	\$4.16	\$3.56	\$2.83
	Fully diluted	3.82	3.38	2.72
	United States Method			
	Primary	3.82	3.38	2.72
	Fully diluted	3.82	3.38	2.72
Dividends (current annual rate : \$1.36)		1.10	0.85	0.65
Book Value		30.64	27.00	22.97
Stock Price	Toronto Stock Exchange			
	High	35.38	31.50	38.75
	Low	26.00	19.38	20.25
	N.Y. Stock Exchange*			
	High	26.13	25.25	31.50
	Low	19.00	15.00	16.50
Debt-to-Equity Ratio		60:40	53:47	59:41

*New York Stock Exchange figures are in U.S. dollars.





Ross J. Turner and Angus A. MacNaughton

Genstar's earnings in 1985 continued to improve as key markets remained healthy in the United States and gained strength in Canada. The company also benefited from higher levels of productivity, effective cost controls and new acquisitions.

The year was one of relatively balanced growth, with building materials manufacturing and real estate development businesses both producing substantially higher earnings and again proving their potential for strong growth under healthy economic conditions.

The company's less cyclical businesses, which have been broadened to lend greater stability to earnings and make Genstar less sensitive to interest rate fluctuations, also made major contributions to income. The financial services business, as has been the case the past four years, was the company's largest source of income. Although total contributions from financial services were somewhat lower than a year ago, when earnings had included gains on the sale of a subsidiary's head office and more venture capital transactions, the performance of trust and lending operations in Canada improved markedly in 1985. There was also a large increase in earnings from industrial services, reflecting the

expansion of waste collection and disposal activities in 1984.

FINANCIAL RESULTS

Genstar's net income for the year amounted to \$171 million, the highest in company history and a 30 percent increase over the \$132 million earned in 1984. Net income per common share was \$4.16, up 17 percent from \$3.56 a year ago and the best since 1980. Revenues rose by 32 percent to \$4.03 billion, compared to \$3.06 billion the year before.

The overall improvement in Genstar's operating performance during 1985 was most evident at the pre-tax level, where income before income taxes amounted to \$177 million, up 34 percent from \$132 million a year ago. Operating income, before taxes and interest expense, was \$388 million, an increase of 18 percent from \$329 million in 1984.

Financing costs increased by eight percent during the year and will rise again in 1986 as the result of debt incurred with the acquisition of Canada Trustco Mortgage Company, which will be discussed in more detail later in this report. Earnings from that acquisition, however, are expected to more than cover the additional financing costs.

ACCOUNTING POLICY CHANGE

The acquisition of Canada Trustco in 1985 confirmed Genstar's commitment to financial services, which now represent over half of the company's total business, and the results of finan-

cial services operations have now been fully consolidated with those of other businesses. Results for prior years have also been restated to reflect this change. Although net income is not affected, the change in accounting policies to full consolidation has produced substantial increases in amounts previously reported for revenues as well as for several other items in the financial statements.

SIGNIFICANT DEVELOPMENTS

As part of Genstar's strategy to diversify into less cyclical businesses, the most significant event of 1985 occurred in August when Canada Trustco was acquired at a cost of \$1.2 billion.

On December 31, Genstar merged Canada Trustco with another subsidiary, Canada Permanent Mortgage Corporation, and created Canada's seventh largest financial institution. The new company, which operates under the Canada Trust name, has approximately \$22 billion in corporate assets, administers another \$27 billion in assets that are held in trust for its clients, and is the second largest real estate brokerage firm in Canada.

The Canadian trust industry, in Genstar's opinion, is a very attractive business. (For further details on this business, please see page 8.) This acquisition and the synergies arising from

the merger will also create a much larger and more dependable source of income than Genstar has enjoyed in the past.

A major priority since the acquisition has been to reduce or restructure debt associated with Canada Trustco's purchase. Of the original \$1.2 billion in bank borrowings, \$238 million was repaid from the proceeds of a new issue of five million Genstar common shares in September and from other sources of cash flow. Genstar Financial Corporation, a wholly-owned subsidiary, also reduced borrowings by approximately \$300 million through the issue of 9% first preferred shares that are redeemable or retractable beginning in October 1990. Genstar plans to further reduce its debt by as much as \$200 million in 1986 through selected asset sales which are now being actively pursued.

Other significant developments during the year included:

- the assimilation of new waste services businesses acquired in 1984, including the exercise of Genstar's option to return a small number of less desirable operations to Genstar's partner in that acquisition, and the purchase of additional waste disposal businesses in 1985.
- further expansion of financial services activities through an investment in Gordon Capital Cor-

poration, a major Canadian investment banker and securities dealer, and the formation with Gordon Capital of a new firm to participate in specialized equity investments in both the U.S. and Canada.

- the sale of the company's Western Canadian gypsum wallboard plants, which had been under extreme competitive pressure because of a lack of company-supplied raw materials.
- the purchase of seven additional roofing product plants, an acquisition that roughly doubled roofing capacity and which should permit substantial savings in production and distribution costs in the future.
- the sale of Genstar's California housing operations, completing its withdrawal from the home-building business; real estate activities will now be largely confined to more profitable and less volatile land and income property developments.
- the modernization or expansion of several other manufacturing facilities, at a capital cost of approximately \$73 million. Genstar's total capital expenditures in 1985 amounted to \$247 million, an increase of 22 percent from \$203 million the year before.
- a 20 percent increase in Genstar's dividend, bringing the annual rate to \$1.20 per common share. In early 1986, the annual rate was further increased to \$1.36.

OUTLOOK

Genstar enters 1986 a larger and less cyclical company than it was a year ago, and the performance of most operations has been improving.

The consolidation of its trust and lending companies in Canada is progressing, and a major marketing effort is generating additional business. Significant savings in operating costs will also accrue from the merger over the next several years. In addition, the evaluation and assimilation of new waste services businesses is complete, and they will make larger contributions to earnings in 1986.

Although there is concern that the decline in world oil prices may have an adverse effect on the recovery now under way in Alberta, the outlook for construction activity in both the U.S. and Canada is generally favorable. This should continue to stimulate demand for Genstar's building products. It should also help keep real estate transactions at reasonable levels, although fewer of the company's properties will be at marketable stages of development.

Overall, Genstar expects both operating performance and earnings to continue to improve in 1986.

BOARD OF DIRECTORS

Mr. Donald Getty, a Director since 1981, resigned from the Board late in the year following his election as the Premier of the Province of Alberta. Because of his close association with that province, where Genstar has substantial investments and a large number of employees, his wise counsel was particularly valuable and will be sincerely missed.

Replacing Mr. Getty is The Honorable Peter Lougheed, P.C., Q.C., who was appointed to the Board in November. Mr. Lougheed also has a long history of involvement with the people and the economic interests of Alberta, having served as the province's Premier from 1971 to 1985.

EMPLOYEES

The Directors extend a warm welcome to the 6,000 employees of Canada Trust, the newest members of the Genstar family, and wish to express their appreciation to all 25,000 of the company's employees for their dedication and contributions during 1985 to another year of profitable growth.



Angus A. MacNaughton
Chairman

Ross J. Turner
President

March 5, 1986

Financial Services

	1985	1984
	(millions)	
Revenues	\$1,783	\$1,236
Operating Income	\$ 164	\$ 173



Financial services has been the company's largest source of operating income in recent years.

TRUST AND LENDING OPERATIONS

Canada Trust, a Genstar subsidiary, is Canada's seventh largest financial institution. It accepts deposits from the public, makes mortgage and other loans, engages in mortgage banking, offers a wide range of fiduciary services, and is the second largest real estate brokerage firm in Canada.

EQUIPMENT RENTAL AND LEASING

Genstar engages in electronic equipment rental, the leasing of shipping containers, and leveraged-lease brokerage.

INVESTMENTS

Venture capital investments are typically made in new or emerging high-technology companies in the U.S. Equity investments are also made in arbitrage and other special situations as opportunities warrant.

Building Materials and Services

	1985	1984
	(millions)	
Revenues	\$1,339	\$1,202
Operating Income	\$ 130	\$ 103



Building materials manufacturing, Genstar's second largest business, produced record earnings in 1985.

CEMENT, AGGREGATES AND CONCRETE PRODUCTS

The company is one of the largest manufacturers of cement in Western Canada and a major supplier of both cement and lime in the Western United States. In the western provinces of Canada and the mid-Atlantic region of the U.S., it is also a leading producer of aggregates and a

broad range of concrete products. The raw materials for these businesses are generally supplied by the company's own pits and quarries.

WALLBOARD AND ROOFING PRODUCTS

Genstar produces gypsum wallboard throughout the United States. It is also one of the largest U.S. manufacturers of residential and commercial roofing products, including asphalt shingles, rolls and liquid coatings.

Industrial Services

	1985	1984
	(millions)	
Revenues	\$ 438	\$ 233
Operating Income	\$ 46	\$ 26



Industrial services has become one of the company's most rapidly growing businesses.

WASTE SERVICES

Genstar is now the third largest waste services company in North America. Its subsidiary, GSX Corporation, collects and disposes of solid or chemical waste in 20 states and two Canadian provinces. Many of these operations also engage in recycling or the production of energy from waste.

MARINE SERVICES

Genstar provides a variety of marine services through its large Pacific Coast fleet of tugs and barges and a smaller ocean-going fleet that operates on an international basis. In addition, the company has extensive ship construction and repair facilities at its shipyard in Vancouver.

Land and Real Estate Development

	1985	1984
	(millions)	
Revenues	\$ 471	\$ 389
Operating Income	\$ 100	\$ 68



Real estate development was one of the most improved businesses in 1985.

LAND DEVELOPMENT

The company usually acquires land in rapidly growing urban areas, installs utilities, roads and other improvements, and markets lots or larger parcels to residential, commercial and industrial builders. Primary areas of activity include Alberta, British Columbia, Manitoba and Ontario in Canada and Ari-

zona, California, Florida, Texas and Washington in the U.S.

INCOME PROPERTY DEVELOPMENT

Genstar also builds or acquires shopping centers, office complexes and other income producing properties, principally in Ontario, Alberta, British Columbia, Northern California and Florida. Some properties are developed for sale and others for retention as a source of cash flow and long-term appreciation.

Financial Services Statistics*

<i>Trust and Lending:</i>	
Corporate Assets	\$21,699
Trust Assets Under Administration	\$27,336
Customer Deposits	\$20,146
Gross Real Estate Commissions	\$ 141
<i>Equipment Rental/Leasing:</i>	
Electronic Equipment Assets	\$ 89
Shipping Containers (TEUs)	97,262
Lease Brokerage Volume	\$ 294
<i>Investments:</i>	
Estimated Market Value**	\$ 115

*Figures, at December 31, 1985, are in millions of dollars except for shipping containers, which are in 20-foot-equivalent units. **Excludes holdings of trust and lending operations.

Offices

Type	Canada	U.S.	Other	Total
Savings/Lending	320	—	—	320
Trust	20*	—	—	20
Realty	170**	—	—	170
Mortgage Banking	—	3	1	4
Electronic				
Equipment Rental	2	7	—	9
Container Leasing	—	2	11	13
Leveraged-Lease				
Brokerage	1	4	—	5
Investments	1	1	1	3
Total	514	17	13	544

*Located at the same sites as some of the savings/lending operations above. **Realty figures do not include 39 franchised offices.

Cement/Lime Plant Capacities*

Location	Lime	**Cement
Alberta	—	787,000
British Columbia	—	1,000,000
Manitoba	—	350,000
Saskatchewan	—	228,000
Arizona	600,000	—
California	120,000	600,000
Nevada	230,000	—
Utah	74,000	—
Total	1,024,000	2,965,000

*Annually; figures are in short tons. **Cement capacity does not include 1,230,000 tons not being utilized for economic reasons.

Aggregate/Concrete Product Plants

Type	Canada	U.S.	Total
Aggregates*	26	10	36
Ready-mix Concrete	20	16	36
Precast Concrete	8	—	8
Concrete Block	5	—	5
Concrete Pipe	6	—	6
Concrete Rail Ties	1	—	1
Blacktop/Asphaltic or			
Bituminous Concrete	7	7	14
Calcium Carbonates	—	1	1
Dry Bagged Mixes	4	10	14
Total	77	44	121

*Includes sand, gravel and crushed stone.

Wallboard/Roofing Plant Capacities*

Location	Wallboard	Roofing
Arkansas	—	185,000
California	—	545,000
Colorado	225,000	—
Georgia	310,000	175,000
Illinois	—	350,000
Louisiana	—	240,000
Minnesota	—	100,000
Nevada	315,000	—
New Jersey	270,000	—
Oregon	—	150,000
South Carolina	—	220,000
Texas	300,000	135,000
Total	1,420,000	2,100,000

*Annually; gypsum wallboard figures are in thousands of square feet; roofing is in tons.

Waste Services Operations

Type	Total
<i>Solid Waste:</i>	
Refuse Collection Operations*	26
Transfer Stations	8
Sanitary Landfills	8
Paper Recycling Plants	3
Rubber Recycling Plants	3
Methane Gas Energy Generation Plants	6
<i>Chemical Waste:</i>	
Regional Service Centers	3
Secure Landfills	1
Thermal Oxidation Plants	1
Total	59

*Refuse collection equipment includes approximately 800 collection vehicles, 75,000 steel refuse containers and 1,500 stationary compactors.

Marine Equipment

Type	Total
Tugs*	48
Self-propelled Tugs	2
Standard Barges	240
Submersible Barges**	5
Self-loading/Self-dumping Log Barges***	4
Total	299

*From 365 to 7,080 brake horsepower; **400 x 100 feet; ***from 12,500 to 20,000 tons

Acreage for Land Development*

	Owned	Op- tioned	Held in part- nership	Total
Canada	12,700	881	7,770	21,351
U.S.	8,475	4,220	1,431	14,126
Total	21,175	5,101	9,201	35,477

*At December 31, 1985. The total owned, optioned or held in partnership at the end of 1984 was 37,518 acres; acreage figures exclude serviced residential lots (2,384 lots in 1985 and 4,433 in 1984).

Income Properties*

	1985	1984
Office Buildings	850,000	500,000
Shopping Centers	1,500,000	950,000
Business Parks	500,000	750,000
Total	2,850,000	2,200,000

*Square footage at December 31 in both Canada and the U.S., including buildings under construction as well as completed. Figures include joint-venture or partnership interests in some properties, amounting to 750,000 square feet in 1985 and 900,000 in 1984.

Financial services became Genstar's largest business in 1985 when the acquisition of Canada Trust and its merger with The Permanent created Canada's seventh largest financial institution. Its savings and lending operations (right) at year-end had corporate assets of nearly \$22 billion and more than \$20 billion in customers' deposits.

Financial services remained Genstar's largest source of income in 1985, generating \$164 million in operating profits. This was about five percent lower than in 1984, when earnings had included larger contributions from venture capital investments and a gain on the sale of a subsidiary's head office building. Revenues amounted to \$1.78 billion, compared to \$1.24 billion a year ago.

The performance of trust and lending operations in Canada improved markedly, and Genstar significantly expanded the scope of these businesses when it acquired Canada Trustco Mortgage Company in the third quarter.

As a result of this acquisition and the subsequent amalgamation of both of Genstar's Canadian trust companies, a large increase in operating income from financial services is forecast for 1986.

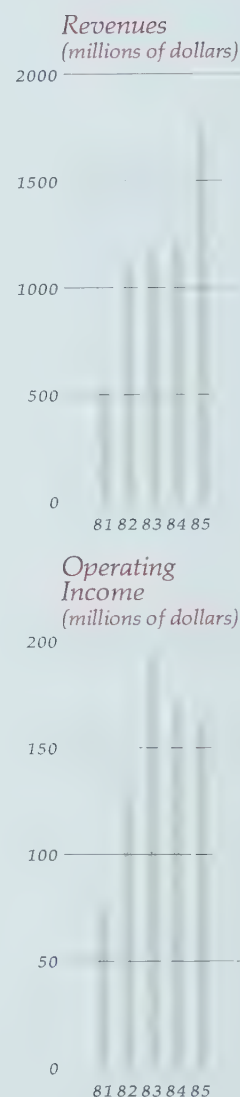
TRUST AND LENDING OPERATIONS

Genstar completed its acquisition of Canada Trustco in August, purchasing approximately 98 percent of its outstanding shares at a cost of \$1.2 billion. On December 31, it was merged with Canada Permanent Mortgage Corporation, which Genstar had acquired in 1981. The merger created Canada's seventh largest financial institution.

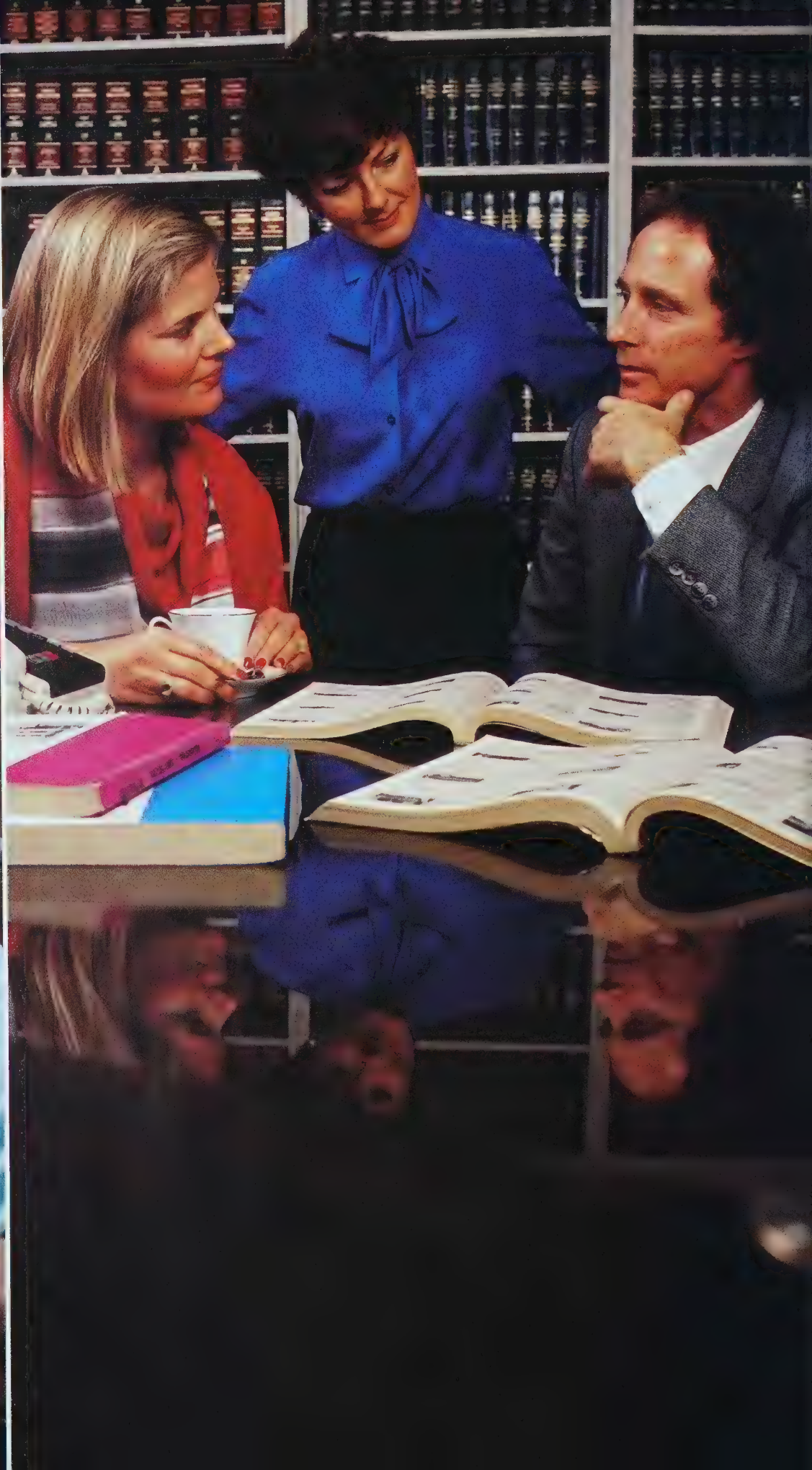
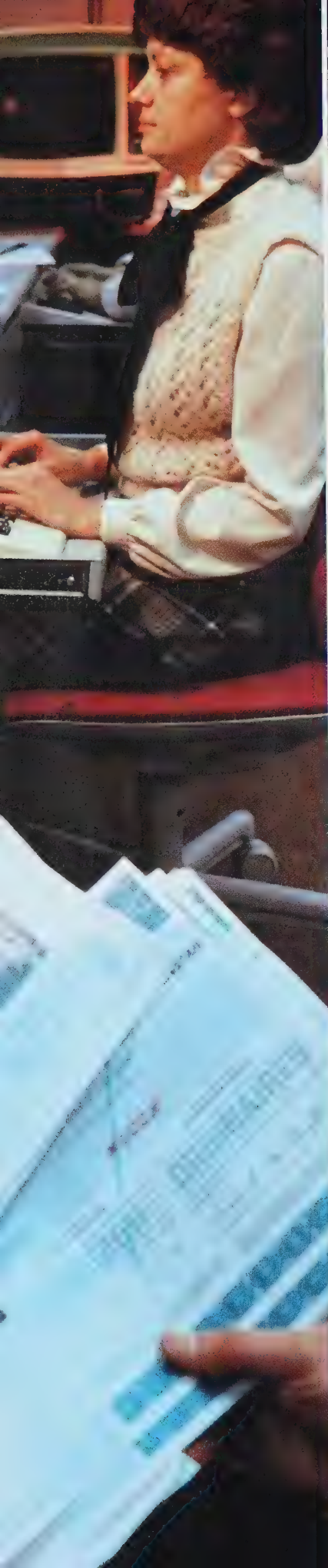
Operating under the Canada Trust name, it administers nearly \$50 billion in assets. These include approximately \$22 billion in mortgages, personal and commercial loans, securities and other corporate assets, plus more than \$27 billion in assets held in trust for its clients.

Operating income from these trust and lending businesses in 1985 was substantially higher than a year ago, with Canada Trustco's initial contributions to earnings accounting for the gain. There was also a significant improvement in operating performance at The Permanent, although total earnings were lower than a year ago when income had included a large profit on the sale of its head office building in Toronto.

The Permanent's savings and lending operations benefited from increased volumes of new mortgage business and from the renewal of maturing assets and







Canada Trust performs stock transfer (far left) and other trust services, administering more than \$27 billion in assets for its clients. It is also Canada's second largest real estate brokerage firm.

liabilities at more favorable rates of interest. As a result, the interest rate differential or spread between interest paid on deposits and interest earned on assets improved to 1.77 percent from 1.48 a year ago. Loan loss provisions were approximately the same as last year.

Performance of The Permanent's fiduciary operations also improved significantly. Trust assets under administration increased by more than 30 percent, and fees for both personal and pension trust services were higher than in 1984.

The Permanent's real estate brokerage operations, benefiting from buoyant real estate markets, realized a 25 percent gain in gross commissions in 1985 and achieved a record level of profitability. Referrals from the network of real estate sales offices were also responsible for a larger percentage of new mortgage business than in the past, reflecting efforts to achieve greater integration between the real estate and financial intermediary branches.

Canada Trustco Mortgage Company also had a very good year. Net income for all of 1985, including the period prior to its acquisition by Genstar, amounted to \$92 million, an increase of 24 percent. Most of the gain came from savings and lending operations. Corporate assets rose by 14 percent, and the average spread increased to 2.32 percent from 2.25 a year ago. Loan loss provisions totaled \$5 million, down from \$13 million in 1984. Income from real estate brokerage services also increased, while earnings from trust services were slightly lower than a year ago.

In 1986, Genstar believes the acquisition of Canada Trust and the synergies arising from the merger will lead to higher operating income from its trust and lending operations. Both Canada Trust and The Permanent have exhibited individual strengths that should complement one another, and the company will also benefit from shared technology, broader coverage of certain regional markets and economies of scale.

Operating nationwide, for instance, gives trust companies in Canada the opportunity to gather deposits on a comparatively economical basis, and

Canada Trust's sophisticated computer systems and large network of savings offices are among the most efficient in the industry. This ability to gather deposits at relatively low cost was a major factor in raising Canada Trust's annualized return on average corporate assets to 73 cents per \$100 during 1985. This compares to 55 cents for The Permanent and an average of 59 cents for Canada's six largest chartered banks. The new company, which already has in excess of \$20 billion in customers' deposits, will now use Canada Trust's data processing systems to conduct its savings and lending transactions through an enlarged network of 320 branches.

The trust operation should also benefit, both from the application of Canada Trust's data systems to its expanded base of personal and pension fund assets and from The Permanent's proven strengths in marketing fiduciary services.

In addition, The Permanent was the second largest real estate brokerage firm in Canada prior to the merger, and the new company, with approximately 170 real estate sales offices nationwide, will now be serving customers through a brokerage network that is 50 percent larger than before.

For each of the company's businesses, in fact, the merger from a geographical standpoint has resulted in better balanced as well as broader coverage of markets in all the Canadian provinces. Canada Trust was the more dominant company in Ontario and Western Canada, for instance, where its offices outnumbered those of The Permanent by more than two to one. Conversely, The Permanent enjoyed stronger market positions in Quebec and in the Maritime provinces, areas where Canada Trust was not as well represented.

In 1986, moderate growth in the Canadian economy, relatively low inflation and reasonably stable mortgage interest rates should create a good operating environment for all of this new institution's



Genstar's diverse financial services businesses include the rental of electronic test and measurement equipment (far left) and the leasing of shipping containers.

businesses. While there will initially be some nonrecurring expenses associated with the amalgamation, the company also expects to increasingly benefit from greater operating efficiency and economies of scale as the year progresses.

EQUIPMENT RENTAL AND LEASING OPERATIONS

Genstar's rental and leasing activities are highly specialized businesses, and these operations have established a significant presence in their respective markets. They also offer a degree of diversification to Genstar's financial services interests, although they have only modest impact on overall results when compared to the much larger trust and lending activities.

Total operating income from equipment rental and leasing in 1985 was lower than a year ago, and relatively little change is expected in market conditions and earnings during 1986.

There was a significant increase in income during the year from leveraged-lease brokerage, a business where Genstar arranges lease financing for a variety of corporate clients. Approximately \$300 million in financing was arranged in 1985, up substantially from \$220 million a year ago.

Income declined, however, from the rental of electronic test and measurement equipment, a business that had reported record earnings every year since it was acquired by Genstar in 1978. Increased competition in 1985 reduced rental rates, particularly to the larger customers, and negatively affected profit margins throughout the rental industry. Major customers include most of the manufacturing industries and certain service and government agencies. Genstar's investment in rental equipment amounted to approximately \$90 million at year-end.

Operating income from shipping container leasing was also lower than a year ago because of reduced per diem and utilization rates. With the decline in trade between Asia and North America, this business has become increasingly competitive. The company, however, continues to maintain relatively high levels of utilization as a result of its sophisticated container

inventory management system. At the end of 1985, Genstar's fleet of containers consisted of 97,000 20-foot-equivalent units.

INVESTMENTS

Although Genstar significantly broadened the scope of its investment activities in 1985, contributions to operating income were reduced by about one-third because of fewer sales of venture capital investments.

Investments by Genstar's venture capital operation are typically made in new or developing high-technology firms and held for a number of years until they reach stages of development that will permit marketing their shares to the public or merging the firms with larger organizations. Because of the variables involved, income from these investments varies widely from year to year. The contribution to operating income in 1985 was \$36 million, compared to \$53 million the year before and an average of \$46 million over the past five years. At year-end, the portfolio included holdings in approximately 50 companies.

In 1985, Genstar also purchased a 10-percent interest in Gordon Capital Corporation, a major Canadian investment banker and securities dealer. In partnership with Gordon Capital, it then formed Gordon Investments Corporation, a new investment firm that will participate in arbitrage transactions and make other specialized investments in both Canada and the United States. Gordon Investments was initially capitalized at \$75 million, of which Genstar contributed two-thirds. At year-end, it had already invested approximately \$50 million of its capital and will continue to build its portfolio during 1986.

Genstar's energy-efficient cement plant at Redding, California, (near right) operated above rated capacity throughout 1985 and contributed to a large gain in earnings from cement operations. Income from concrete products and aggregates was also substantially higher than a year ago.

Building materials manufacturing remained one of Genstar's most profitable businesses in 1985, producing record earnings on a comparatively small increase in revenues. High levels of productivity, effective cost controls, continued strength in U.S. markets and improved economic conditions in Alberta contributed to a 26 percent increase in operating income, which rose to \$130 million from \$103 million a year ago. Revenues were \$1.34 billion, up 11 percent from 1984.

Cement, aggregates and concrete product operations had a particularly good year, more than offsetting a decline in the wallboard and roofing business.

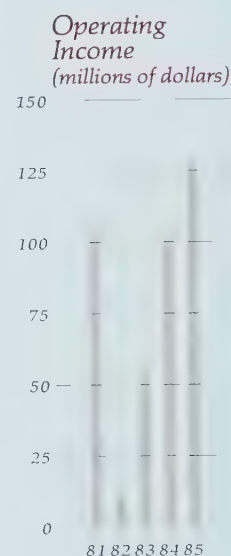
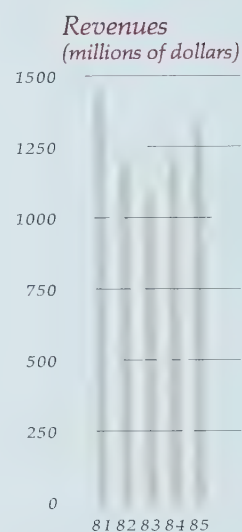
Further improvement in earnings is expected in 1986.

CEMENT, AGGREGATES AND CONCRETE PRODUCTS

Operating income from cement, lime, aggregates and concrete product manufacturing rose significantly in 1985, accounting for nearly 80 percent of Genstar's total earnings from building products. Sizable gains were reported by operations in both Canada and the U.S.

In Canada, construction activity was reasonably brisk in British Columbia during the early part of the year and then fell off sharply following completion of projects associated with Expo 86, a large international exposition that opens this May in Vancouver. In the prairie provinces, building materials markets remained relatively stable in Saskatchewan, improved in Manitoba as a result of increased residential development, and made significant gains in Alberta, one of Genstar's most important markets. In Alberta, construction associated with the 1988 Winter Olympics is under way, and several new energy development projects have been initiated. Although declining world oil prices remain a concern, recessionary conditions in that province gave way to moderate recovery in 1985, unsold inventories of commercial and residential properties were slowly absorbed, and new construction activity was increasing during the latter part of the year.

There was a substantial increase in operating income from Genstar's Canadian cement plants in 1985, primarily because of increased demand in







*B.C. Place (near left),
with its distinctive fabric
dome, will be a showcase
for thousands of tons of
Genstar precast concrete
components when
Vancouver's world's fair,
Expo 86, opens in May.*

Alberta. Production at the British Columbia plant also reached higher levels after the U.S. Federal Trade Commission lifted a ban on its exports to Genstar's cement terminals in the Northwestern U.S. Cement imported from Asia put extreme pressure on pricing and margins in Pacific Coast markets during the year, while prices held up reasonably well in the prairie provinces despite the threat of imports from the U.S.

Canadian aggregate and concrete product operations also benefited from rising demand in the prairie provinces, and operating income more than doubled from its depressed level of 1984. Sales of aggregates, concrete pipe, ready-mix and precast concrete components were significantly higher in Alberta and Manitoba, more than compensating for soft markets in British Columbia. A consolidation of operations in the prairie provinces also reduced overhead expenses and contributed to profitability.

In the United States, the economy experienced its third consecutive year of expansion. Declining interest rates kept residential construction at healthy levels, the government invested heavily in rebuilding the country's infrastructure, and demand for Genstar's construction materials continued to rise.

The company's California cement operation, which also serves markets in Nevada, Oregon and Washington, experienced a surge in sales volume and a large increase in operating income. The ability to supply its northernmost terminals by water from Genstar's Vancouver plant and the leasing of rail cars in California and Nevada significantly reduced distribution costs. Production costs also declined when the modern Redding plant operated above rated capacity throughout the year. These savings resulted in higher net profit margins in spite of price constraints imposed by foreign imports.

An equally significant gain in operating income was also realized at Genstar's lime manufacturing plants in the Western U.S., where there was greater penetration of promising air pollution control markets. Gross profit margins also benefited from the use of less expensive alternative fuels, a general decline in conventional fuel prices, and a greater concentration

of production at plants with the most efficient kilns.

In the Eastern U.S., operating income from aggregates and concrete products reached a record level. Product volumes rose as a result of buoyant construction activity and good weather, while new or recently modernized plants enhanced productivity. Most ready-mix plants have now been converted to computer-controlled batching and central dispatch systems, and aggregates production facilities are becoming increasingly automated.

Capital expenditures at all cement, aggregate and concrete products operations in 1985 amounted to \$24 million, down slightly from \$26 million a year ago. Major projects include conversion of the Vancouver cement plant's kiln from natural gas to less expensive coal and a renovation of the Manitoba cement plant following receipt of a six-year, \$22-million contract to supply cement for a new hydroelectric dam. Work at both plants will be completed in early 1986. The company also purchased new aggregate reserves in Alberta and Manitoba during the year and acquired additional concrete pipe manufacturing capacity in Alberta and Saskatchewan. In the U.S., Genstar opened new packaged materials plants in Philadelphia and Detroit and expanded its blacktop, sand and gravel operations in Maryland. A \$13-million modernization of operations at the company's largest quarry in the Eastern U.S. is also scheduled for completion in August, and a portable concrete rail tie plant is under construction for use in promising new U.S. markets.

In 1986, further increases in operating income are expected in Western Canada, although there is some concern about weakness in British Columbia markets and the effect of declining oil prices on the recovery now under way in Alberta. Income in the U.S. should also rise. Earnings from aggregates and concrete products may be modestly below 1985's record level, but any decline will be more than offset by continued improvement at cement and lime operations.



The company doubled its capacity to produce asphalt roofing in 1985, and Genstar's wordmark (near left) has replaced Flintkote and other brand names on wallboard and roofing products.

WALLBOARD AND ROOFING PRODUCTS

Operating income from gypsum wallboard and asphalt roofing was somewhat lower than in 1984.

Results of Genstar's wallboard manufacturing operations varied from region to region in 1985, and total volumes and income fell below their excellent levels of a year ago.

In the United States, markets along the Eastern Seaboard remained extremely strong. Both of Genstar's East Coast wallboard plants operated at full capacity throughout the year, and prices continued to rise. Volumes and prices also held up well in the western states. Strength in these areas, however, failed to compensate for reduced sales and pressure on prices in the South Central U.S., where several competitors have recently added to plant capacities.

Genstar sold its three Western Canadian wallboard plants at mid-year, realizing a gain on the sale. These plants had continued to suffer from excess capacity in their marketplaces, and a lack of company-owned sources of raw materials had placed them at a competitive disadvantage.

In early 1985, the company acquired seven additional roofing product plants at a cost of approximately \$65 million, of which about \$36 million represented inventories and accounts receivable. This acquisition roughly doubled Genstar's production capacity and ability to serve U.S. roofing markets. Although results from roofing operations were disappointing in 1985 because of pricing constraints and higher than anticipated costs of integrating new facilities with existing ones, the acquisition is expected to produce a number of benefits in the future. It is allowing the consolidation of some operations, with more complex types of production being assigned to the facilities that can most efficiently handle them. Genstar also can now produce all of the fiberglass mat and most of the roofing granules required to meet its manufacturing needs. This assures a dependable supply of raw materials and has had a beneficial effect on production costs. In addition, the increased geographical scope of this operation will result in

more efficient and less expensive distribution of its products. After reevaluating its distribution methods, the company also sold all of its remaining wholesale supply centers in 1985.

These developments make Genstar a more cost-effective producer of roofing products. Operations will also benefit as existing contracts with asphalt suppliers expire and falling oil prices reduce the cost of asphalt, one of the more expensive raw materials in roofing products. The degree to which this will improve gross margins, however, will depend on roofing prices. The roofing industry as a whole continues to suffer from excess capacity, and intense competition has kept prices at depressed levels in recent years. The situation improved slightly in 1985, but a further contraction of industry capacity will be necessary before meaningful price increases can occur and return these operations to satisfactory levels of profitability.

Capital expenditures at wallboard and roofing plants totaled \$48 million in 1985, compared to \$14 million a year ago. Most of the roofing expenditures were associated with the consolidation of new and existing capacity and with the installation of equipment that will reduce production costs or permit the addition of new products to the line. Wallboard expenditures were primarily for equipment that will enhance productivity and product quality.

In 1986, competitive pressure on wallboard prices is expected to increase and spread to more U.S. markets, reducing margins and earnings. This decline will be partially offset, however, by improved performance and a reduction in losses at roofing plants once the integration of new operations is complete.

Additional operations acquired in late 1984 have made Genstar the third largest waste services company in North America. Its wholly-owned subsidiary, GSX Corporation, collects and disposes of both chemical (far right) and solid waste in 20 states and two Canadian provinces.

Operating income from industrial services amounted to \$46 million in 1985, up 79 percent from the year before. Revenues totaled \$438 million, an increase of 88 percent.

The company's new waste services subsidiary, GSX Corporation, accounted for the gains, while income and revenues from marine services were approximately the same as a year ago.

GSX was formed in September of 1984 following the acquisition of 40 percent of the waste collection and disposal operations of SCA Services, Inc. Now the third largest waste services firm in North America, GSX is expected to contribute to another significant increase in earnings from industrial services in 1986.

WASTE SERVICES

Genstar's operating income from waste services tripled in 1985 as newly acquired operations made their first full year's contribution to profits.

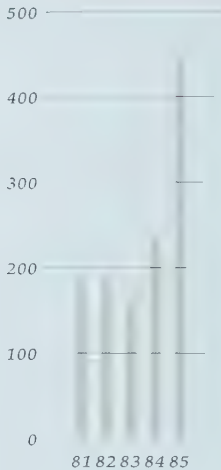
In July, GSX completed an extensive evaluation of those new operations and determined that some of them should be divested. Under terms of the acquisition agreement, the divestitures are being concluded at no cost to Genstar and the proceeds will be reinvested in additional waste services businesses.

Eight new solid waste collection operations were purchased in 1985, and GSX also added to its mobile fleet and made capital improvements at several of its facilities during the year.

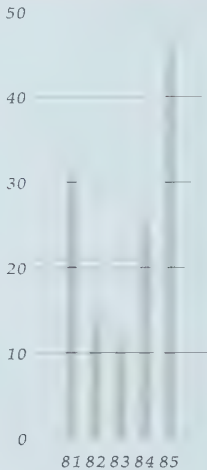
Approximately 85 percent of GSX's revenues and two-thirds of its operating income in 1985 were generated by the collection and disposal of solid waste. The company secured additional municipal waste collection and disposal contracts in 1985, had several existing contracts extended for periods as long as 15 years, and now serves more than half a million residential customers and 56,000 commercial clients.

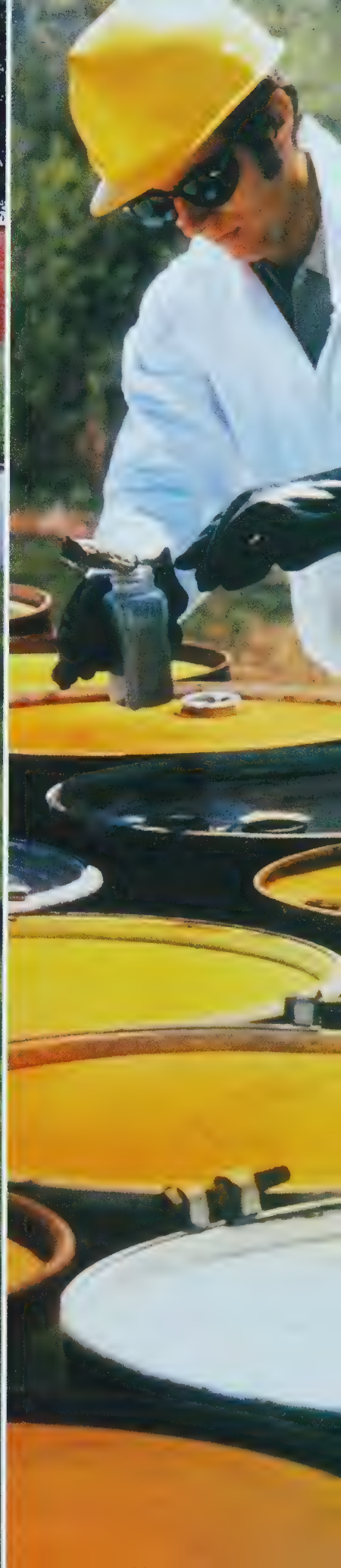
The new contracts and extensions are indicative of the continuing trend among local governments to award contracts for waste and other essential services to private firms. At year-end, GSX was providing residential, commercial and industrial solid waste services to 63 communities throughout the United

Revenues
(millions of dollars)



Operating
Income
(millions of dollars)







GSX's newly acquired thermal oxidation unit (near left) can incinerate 75 million pounds of hazardous liquid waste a year. Genstar also provides a broad range of marine services.

States and in portions of Western Canada.

Solid waste reclamation activities were also expanded in 1985. The company was awarded a six-year contract with optional extensions for the construction and operation of a major new resource recovery and waste transfer facility in British Columbia. That plant, when fully operational in late 1987, will have the capacity to process approximately 250,000 tons of waste per year. GSX also opened a new 100-ton-per-day paper recycling plant in Oregon. In addition, the company broadened its market for reclaimed rubber by introducing a more finely ground grade of product and by using new production techniques that make its price more competitive with natural and synthetic materials. The operation that recovers methane gas from landfills and uses it to generate electricity also opened three more facilities in 1985, with a combined generating capacity of seven megawatts per year. Construction is now under way on a 20-megawatt unit in Southern California, the largest built thusfar.

GSX's chemical waste operations, which are concentrated in the Southeastern U.S., accounted for about 15 percent of the company's total waste services revenues and one-third of its operating income in 1985. Though not as large as the solid waste operations, the disposal of hazardous wastes has typically yielded the highest margins and is expected to be the fastest growing segment of the waste services industry.

In 1985, GSX completed major capital improvements at its secure chemical landfill and at two of its chemical transfer and service centers, positioning the company to better serve the growing needs of chemical, petroleum and other waste generating industries. In January of 1986, GSX also purchased one of the largest commercial incinerators in the U.S. for the disposal of hazardous liquid wastes. The capacity of that thermal oxidation unit was doubled immediately after its acquisition, and it is now capable of incinerating 75 million pounds of waste a year.

The waste services industry in general has historically been a fragmented business, consisting of thou-

sands of relatively small firms. In addition, there are five major public companies, including Genstar, that share 15 to 20 percent of a U.S. market estimated at well over \$20 billion annually. Since it is a capital intensive business where insurance coverage and regulatory approvals are becoming increasingly difficult to obtain, a number of smaller operators are leaving the business and creating growth opportunities for the larger corporations.

Because the business is relatively insensitive to interest rate fluctuations and other cyclical influences and has a history of above-average growth, Genstar intends to pursue further expansion within this industry.

As a consequence, continued growth as well as increased profitability is anticipated from waste services businesses in 1986.

MARINE SERVICES

There was a modest decline in revenues and operating income from marine services in 1985.

The forest products industry in British Columbia is the primary source of revenues for Genstar's large Pacific Coast fleet of tugs and barges, and activity in that industry remained at recessionary levels. The smaller fleet that provides services in international waters also suffered from reduced offshore oil exploration and from competitive pressure on charter rates.

Volumes of ship repair and construction business were approximately the same as a year ago. The company's shipyard built three new chip barges for use by the Genstar fleet and began retrofitting a large fisheries research vessel that will be delivered to the Canadian government in April of 1986.

In addition to the chip barges, another self-loading/self-dumping log barge was added to the fleet in 1985.

Relatively little change is expected in market conditions during the coming year, and volumes of business as well as operating income from marine services should be about the same as in 1985.

Land and real estate development was one of Genstar's most improved businesses in 1985. Operating income rose to \$100 million, an increase of almost 50 percent from \$68 million in 1984. Revenues amounted to \$471 million, up 21 percent from the year before.

The gain in earnings reflected both a significant increase in income from land development in the U.S. and Canada and the elimination of losses from homebuilding.

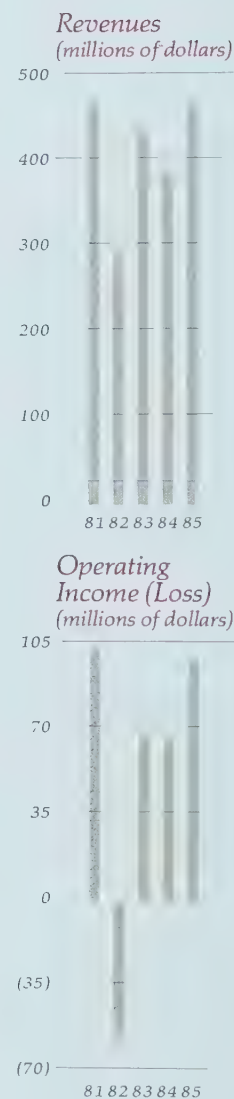
The improvement is particularly noteworthy because net operating assets devoted to this business had declined to \$653 million at year-end, down seven percent from a year ago and 25 percent from a peak of \$876 million at the end of 1981. In order to create a less volatile and more profitable base of earnings, Genstar withdrew from homebuilding activities in Canada and Texas in late 1984 and sold its California housing operations in early 1985. The company is now concentrating on land and income property development, often through joint ventures.

Construction activity is expected to remain at reasonably healthy levels in 1986, and capital for real estate investments should remain plentiful. A note of caution should be introduced when discussing the outlook for next year, however, as builders are entering 1986 with larger inventories of lots than a year ago, and the company's income properties are still largely in developmental stages. As a consequence, revenues and operating income are expected to be lower than in 1985, and much of the year will be devoted to improving the quality of the company's real estate holdings. Further attention will also be given to forming new partnerships or joint ventures to develop those holdings and to taking other steps that will facilitate more direct financing of these operations from external sources.

LAND DEVELOPMENT

Operating income from land development in 1985 was approximately double that of a year ago. Housing starts and the demand for land in Canada increased as a result of lower and more stable interest rates, reduced unemployment, higher personal incomes and a revival of consumer confidence in the economy. Similar factors were at work in the U.S.,

Income from land development was approximately double that of a year ago, with marked improvement in both U.S. and Canadian markets. At Genstar's new 4,000-acre development in Orlando, Florida, construction of a golf course (near right) was completed in December and sales of serviced land will begin in 1986.







Commercial Office
Tower
112,000
Occupancy 1986
863-1215
Bernie



VISAGE

Sears

Bata

| Genstar added 650,000
| square feet of offices,
| shopping centers and
| other income properties
| to its portfolio in 1985,
| including a 16-story
| office tower (far left)
| nearing completion in
| Toronto.

where the strong recovery in residential construction that began three years ago maintained its momentum.

In Canadian markets, profits from land development increased five-fold and revenues more than doubled from the previous year's depressed level. The market for land was especially buoyant in Ontario, where the economy continues to outperform the rest of the nation, and in Manitoba, where inventories of new housing are being replenished. Lower interest rates also stimulated activity in British Columbia and in the important Alberta markets where unsold inventories of residential, commercial and office properties are gradually being absorbed.

In the U.S., revenues and income from Genstar's land development projects reached record levels in 1985. A substantial profit was realized on the sale of the company's interest in a large, mixed-use project in Dallas, Texas. Demand for serviced land in San Diego, California, and at a relatively new development in Phoenix, Arizona, was particularly strong, and there was some improvement at projects in Miami, Florida, and Vancouver, Washington.

At the company's new 4,000-acre development in Orlando, Florida, construction of a golf course was completed in December, and sales of land will commence in 1986.

An additional 2,400 acres in San Diego County were purchased during the year. Located in the city of Santee, this new development will eventually accommodate up to 6,000 residential units as well as a variety of business and commercial complexes.

Three more joint ventures were also formed in 1985 for the development of acreage in Texas, Ontario and British Columbia. The company's experience and reputation as a developer, along with a growing awareness that raw land is an asset that yields above-average returns, is attracting an increasing number of financial institutions and other large investors as partners in land development ventures. Genstar has been actively pursuing these relationships in recent years, as they allow the company to apply its expertise to a broader range of projects while sharing the substantial financial commitments with its partners.

At year-end, Genstar owned, had options on or

held in partnership 35,477 acres of land, about 2,000 acres fewer than at the beginning of the year. The inventory also included 2,384 serviced residential lots, down nearly 50 percent from the number available at the end of 1984.

Land development will continue to make a substantial contribution to income during the coming year, although at a lower level than in 1985.

INCOME PROPERTY DEVELOPMENT

Genstar concentrated on rebuilding its income property portfolio in 1985 after most of its holdings in the U.S. were sold the year before. As a consequence, comparatively few properties were available for sale, and operating income from commercial and industrial developments was considerably lower than a year ago.

In Canada, Genstar continued to add to and improve its portfolio in 1985, with most new construction taking place in robust Ontario markets. At year-end, the Canadian portfolio consisted of 2.2 million square feet of leasable space either completed or under construction, compared to 1.5 million a year ago.

In the United States, construction and leasing are under way on approximately 500,000 square feet of business parks and retail space in the San Francisco Bay Area. At its land development projects in Florida, Genstar is also building the first half of what will ultimately be a 240,000-square-foot retail and office complex, and another large retail center is in the planning stage.

More of the company's new commercial and business complexes will be built on sites within Genstar's land development projects in the future, particularly at the larger mixed-use developments where the company can benefit from identifying at an early date the availability of attractive sites.

Although many of its properties will remain in early stages of development during the year, some improvement in earnings from income properties is anticipated in 1986. New developments are also planned, and Genstar will be seeking further opportunities to acquire completed properties in areas where skillful management and the absorption of excess retail or office space over time will offer acceptable medium-term profits.

Financial Services

Genstar Financial Corporation
Vancouver, British Columbia
J.A.C. Hilliker, President and Chief Executive Officer

Canada Trustco Mortgage Company
London, Ontario
M.L. Lahn, President and Chief Executive Officer
J.A.C. Hilliker, Chairman

Genstar Container Corporation
San Francisco, California
T.S. Tan, President

Genstar Mortgage Corporation
Glendale, California
E.H. Plaga, President

Genstar Rental Electronics Inc.
Palo Alto, California
W.D. Rollnick, President

TXL Corporation
San Francisco, California
R.L. Bishop, President

Sutter Hill Ventures
Palo Alto, California
P.M. Wythes, D.L. Anderson
G.L. Baker, Jr., W.H. Younger
General Partners

Gordon Investment Corporation
Toronto, Ontario
J. R. Connacher, Chairman and Chief Executive Officer
N. W. Baker, President

Building Materials

Genstar Cement Limited
Edmonton, Alberta
P. Wacko, President

Genstar Cement Company
Oakland, California
A.K. Mueller, President

Genstar Lime Company
San Mateo, California
J.L. Crawley, President

Genstar Construction Materials Company Limited
Calgary, Alberta
D. Pickersgill, President

Genstar Stone Products Company
Hunt Valley, Maryland
T.O. Nuttle, President

Genstar Gypsum Products Company
Irving, Texas
C.R. Kelley, President

Genstar Roofing Products Company
Irving, Texas
R.L. Lambden, President

Industrial Services

GSX Corporation
Boston, Massachusetts
D.F. Smith, President

Seaspan International Ltd.
North Vancouver, British Columbia
A.M. Fowlis, President

Land and Real Estate Development

Genstar Land-U.S.A.
San Diego, California
F.D. Dembinsky, President

Genstar Development Company
Vancouver, British Columbia
L. Cosman, President

Sutter Hill Developments Limited
Toronto, Ontario
R.M. Kirshner, President

Sutter Hill Limited
Palo Alto, California
R.E. Brewer, President

We have examined the consolidated balance sheets of Genstar Corporation and subsidiaries as at December 31, 1985 and 1984, and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1985, as set forth on pages 41 through 68 of this report. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Genstar Corporation and subsidiaries as at December 31, 1985 and 1984, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis, after restatement, with which we concur, for the consolidation of Genstar Financial Corporation, a financial services subsidiary that was previously accounted for using the equity method as explained in Note 21 to the consolidated financial statements.

Coopers & Lybrand

Chartered Accountants

*Vancouver, Canada
March 5, 1986*

Financial Review

For the eleven years ended December 31, 1985
(millions of Canadian dollars except per share amounts)

		1985	1984	1983
<i>Financial Summary</i>	Revenues	\$ 4,032	\$ 3,059	\$ 2,872
	Operating income	388	329	300
	Income (Loss) before income taxes	177	132	110
	Net income (loss)	171	132	103
<i>Per Common Share</i>	Net income (loss)			
	Canadian method			
	Basic	\$ 4.16	\$ 3.56	\$ 2.83
	Fully diluted	3.82	3.38	2.72
	United States method			
	Primary	3.82	3.38	2.72
	Fully diluted	3.82	3.38	2.72
	Dividends	1.10	0.85	0.65
	Book value	30.64	27.00	22.97
<i>Performance Measurement</i>	Return on net assets (pre-tax)	8.6%*	11.6%	12.1%
	Return on common equity	12.1%	13.1%	12.3%
	Return on total assets	0.67%*	1.27%	1.11%
<i>Debt-to-Equity Ratio</i>		60:40	53:47	59:41
<i>Capitalization</i>	Debt	\$ 2,310	\$ 1,470	\$ 1,387
	Deferred income taxes	36	50	77
	Minority interests in subsidiaries	436	36	21
	Redeemable preferred shares	221	221	120
	Convertible redeemable preferred shares	205	205	105
	Common shares and contributed surplus	476	313	304
	Retained earnings	559	466	383
<i>Other Statistics</i> (millions except employees)	Total assets	\$25,370	\$10,380	\$ 9,286
	Assets under administration	\$27,366	\$ 9,849	\$ 8,605
	Funds generated (required) by operations	\$ 278	\$ 225	\$ 186
	Capital expenditures	\$ 247	\$ 203	\$ 259
	Common shares outstanding			
	Year-end	37.0	31.7	31.4
	Average	33.1	31.5	31.2
	Average number of employees	26,269	16,170	15,175

*Excluding Canada Trustco Mortgage Company, 1985 return on net assets was 11.0% and return on total assets was 1.43%. **Excluding the net assets and operations of the Flintkote Company which were acquired effective December 31, 1979.

1982	1981	1980	1979	1978	1977	1976	1975
\$ 2,802	\$ 2,629	\$ 2,372	\$ 1,311	\$ 1,145	\$ 981	\$ 822	\$ 684
69	261	352	265	205	170	143	106
(174)	76	210	196	155	121	103	85
(84)	94	158	127	88	68	58	47
\$ (3.36)	\$ 2.40	\$ 4.92	\$ 4.31	\$ 3.26	\$ 2.66	\$ 2.40	\$ 2.02
(3.36)	2.34	4.48	4.06	3.09	2.44	2.16	1.81
(3.36)	2.37	4.54	4.26	3.24	2.64	2.37	2.01
(3.36)	2.34	4.48	4.08	3.12	2.48	2.19	1.84
0.90	1.80	1.65	1.25	.81	.71	.63	.60
20.89	24.31	23.97	19.29	15.86	13.79	12.15	10.50
2.6%	10.4%	15.1%	12.4% **	16.7%	15.6%	13.1%	17.9%
(16.0%)	9.8%	19.4%	22.2%	19.9%	19.1%	20.0%	19.5%
(0.96%)	1.11%	5.83%	4.94%	5.69%	5.44%	4.70%	6.67%
65:35	60:40	50:50	63:37	49:51	62:38	64:36	49:51
\$ 1,648	\$ 1,476	\$ 928	\$ 1,116	\$ 540	\$ 563	\$ 564	\$ 256
96	212	186	187	116	95	76	52
23	22	2	1	1	—	—	—
120	120	120	120	120	—	—	—
107	111	114	9	10	13	27	22
297	292	285	186	180	169	149	141
317	448	429	341	257	191	142	101
\$ 8,761	\$ 8,469	\$ 2,709	\$ 2,572	\$ 1,546	\$ 1,249	\$ 1,233	\$ 705
\$ 9,015	\$ 8,176	\$ 3,600	\$ 2,832	\$ —	\$ —	\$ —	\$ —
\$ (47)	\$ 178	\$ 250	\$ 160	\$ 147	\$ 112	\$ 96	\$ 77
\$ 261	\$ 183	\$ 172	\$ 106	\$ 53	\$ 107	\$ 90	\$ 68
30.9	30.6	30.2	27.4	26.8	25.8	23.8	23.0
30.7	30.5	28.5	27.3	26.4	25.1	23.5	22.7
17,788	20,225	17,525	19,850	10,428	11,007	10,695	10,125

Consolidated Highlights

All prior years' data in this review have been restated to consolidate the results of Genstar Financial Corporation, the company's financial services subsidiary, previously accounted for on the equity method.

Genstar's net income was \$171 million (\$4.16 per common share) in 1985, compared to \$132 million (\$3.56 per common share) in 1984 and \$103 million (\$2.83 per common share) in 1983. Per share amounts are based on average outstanding common shares of 33.1 million in 1985, 31.5 million in 1984 and 31.2 million in 1983.

<i>Percent of Total Revenues</i>	1985	1984	1983
<i>Total Revenues</i>	100.0%	100.0%	100.0%
<i>Cost and Expenses</i>			
Cost of revenues	46.9	49.9	50.9
Customer deposit interest	26.4	23.0	22.8
	73.3	72.9	73.7
Selling General and Administrative	12.9	12.1	11.8
Depreciation	4.2	4.3	4.0
	90.4	89.3	89.5
<i>Operating Income</i>	9.6	10.7	10.5
<i>Financing Costs</i>	5.2	6.4	6.7
<i>Income Before Income Taxes</i> . . .	4.4	4.3	3.8
<i>Provision for Income Taxes</i>2	—	.2
<i>Net Income for the Year</i>	4.2%	4.3%	3.6%

Following are highlights of consolidated results:

1985 Compared to 1984

Revenues of \$4.0 billion in 1985 were 32% higher than 1984 as significant increases were realized in all industrial categories. The largest dollar increase was in Genstar's financial services operations, which benefited from the results of Canada Trustco Mortgage Company (Canada Trustco) in the final four months of 1985 following its acquisition in August. The industrial services category had the largest percentage increase, 88%, as a result of a full year's contribution to earnings in 1985 by GSX, its waste services subsidiary, compared to only four months in 1984, when it was acquired in September. Cost of

revenues and customer deposit interest as a percentage of revenues was about the same in 1985 as in 1984. Selling, general and administrative expenses increased by \$151 million, or 41%, but as a percentage of revenues increased only from 12.1% in 1984 to 12.9% in 1985. This increase resulted largely from the major acquisitions in 1984 and 1985. Additional expenses arose from the merger of Genstar's two trust companies and the increase in minority interest due to dividends paid on preferred shares of subsidiaries issued during 1985. Depreciation, depletion and amortization costs were up \$38 million, primarily because of additional amortization of intangible assets. Despite the increases in selling, general and administrative expenses and depreciation, operating income of \$388 million was up 18% from \$329 million in 1984. Operating income as a percentage of revenues declined from 10.7% in 1984 to 9.6% in 1985. This was offset by a reduction in financing costs as a percentage of revenues, which declined from 6.4% to 5.2%. Net income increased by \$39 million, or 30%, over 1984 and remained almost constant as a percentage of revenues.

Revenues from both the Canadian and U.S. operations improved significantly, increasing by 37% and 25% respectively. Operating income also increased in both countries; rising 26% in the United States and 9% in Canada. The improvement in U.S. operations was enhanced somewhat by the conversion to Canadian dollars at an average foreign exchange rate of 1.365 compared to 1.29 in 1984.

1984 Compared to 1983

Revenues of \$3.1 billion in 1984 were 7% higher than 1983 due to increases in all categories except land and real estate development. These increases included a 49% increase in revenues from industrial services, primarily because of the GSX acquisition, and a 10% increase from building materials as a result of improving economies in the United States and Canada. Cost of revenues and customer deposit interest as a percentage of total revenues improved from 73.7% in 1983 to 72.9% in 1984 and, combined with the revenue increase, were the major

factors in the increase in earnings over 1983. Although both selling, general and administrative expenses and depreciation were \$47 million higher in 1984, this was more than offset by the improvement in revenues and cost of revenues, resulting in a 9% increase in operating income. Slightly higher financing costs caused by higher average interest rates were also more than offset by a \$6 million reduction in tax expense. Net income of \$132 million in 1984 was 28% greater than the \$103 million in 1983. Net income as a percentage of revenues was 4.3% in 1984, compared to 3.6% in 1983.

The improved results were derived to a large extent from the company's U.S. operations, which contributed 15% increases in both revenues and operating income. The Canadian operations generated no change in revenues and a 4% increase in operating income. The slow recovery of the Canadian economy adversely affected Canadian revenues, while stronger economic growth and the acquisition of GSX contributed to improved results in the United States. Operating income of U.S. operations was further augmented by conversion to Canadian dollars at an average foreign exchange rate of 1.29 compared to 1.23 in 1983.

Operations

The following discussion of major factors affecting the operating income of each industrial category during the three years ended December 31, 1985, should be read in conjunction with "Results by Industrial Category" on pages 42 and 43 of this report, and "Financial Data by Geographic Area" on page 41.

Financial Services

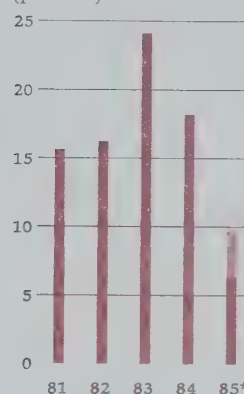
Revenues in 1985 were \$1.78 billion, compared to \$1.24 billion in 1984 and \$1.18 billion in 1983.

Operating income was \$164 million in 1985, compared to \$173 million in 1984 and \$194 million in 1983.

Revenues and operating income for 1984 and 1983 have been restated to fully consolidate the results of operations of Genstar Financial Corporation, a

subsidiary through which Genstar conducts its financial services activities and which was previously accounted for on the equity method.

Financial Services
Return on Net Assets
(Pre-tax)
(percent)



*Dark portion of bar includes all of Canada Trustco's Year-end net operating assets, but only a part-year contribution to income. Excluding Canada Trustco, RONA would have been 9.9% in 1985.

Financial services continued to be the company's largest source of income as trust and lending operations expanded significantly in Canada, primarily from the acquisition of Canada Trustco. Overall, however, operating results from financial services were \$9 million lower than a year ago, due in large part to fewer sales of venture capital investments in 1985 and a \$20-million gain on the sale of a subsidiary's head office building that was included in 1984 earnings.

The acquisition in August of Canada Trustco Mortgage Company for \$1.2 billion greatly increased the company's presence in the financial services industry. On December 31, 1985, Genstar merged Canada Trustco with Canada Permanent Mortgage Corporation (The Permanent), another Genstar subsidiary, to create the seventh largest financial institution in

Canada. The newly amalgamated company, which has assumed the Canada Trust name, has \$22 billion in corporate assets and administers another \$27 billion in clients' assets held in trust. The acquisition transaction and its effects are described in Note 1 to the consolidated financial statements.

Operating results from the combined trust and lending operations increased \$15 million from the prior year. Canada Trustco made a positive contribution to income in the final four months of 1985 after accounting for amortization of acquisition expenses and interest costs. Similarly, The Permanent's contribution to income during 1985, before accounting for the 1984 gain on the sale of its head office building and the negative effects of amortizing acquisition adjustments to assets and liabilities, increased due to improved interest margins.

Trust and lending operations consist of four businesses: financial intermediary activities, personal and corporate trust services, residential and commercial real estate brokerage and mortgage banking. Operating results from financial intermediary services in 1985 increased primarily as a result of the new operations acquired and better interest rate spreads. Trust activities benefitted from higher pension and personal trust fees and increased corporate trust business. Real estate brokerage activities also increased over 1984, producing record commission income from expanded operations and a strong homebuying market that was fueled by lower interest rates. This contrasts with 1984, when economic conditions in Canada slowed commission growth. Mortgage banking in the United States experienced losses in both 1985 and 1984 when the division was in the process of changing its portfolio of mortgages serviced from government guaranteed to conventional mortgages.

Genstar's financial services activities were further expanded in July through an investment in Gordon Capital Corporation, a major Canadian investment banker and securities dealer, and a subsequent joint venture with Gordon Capital to create a new firm that will direct specialized equity investments in both the United States and Canada.

Sales of venture capital investments generated operating income of \$36 million, \$53 million and \$88 million in 1985, 1984 and 1983, respectively. The reduced returns in 1985 and 1984 reflect lower sales of venture capital holdings compared to 1983, when many start-up companies made initial offerings of equity to the public.

Operating income from the company's rental and leasing operations decreased in 1985, in contrast to the steady growth experienced in previous years. Increased competition in these businesses caused rate reductions and lower utilization of equipment.

Building Materials:

Cement, Aggregates and Concrete Products

Revenues were \$794 million in 1985, compared with \$709 million in 1984 and \$677 million in 1983. The \$86-million increase in 1985 resulted from improved demand in both Canadian and U.S. markets. In 1984, increased demand in the United States had been partially offset by weak Canadian markets. The following tables show volume increases in both the United States and in Canada:

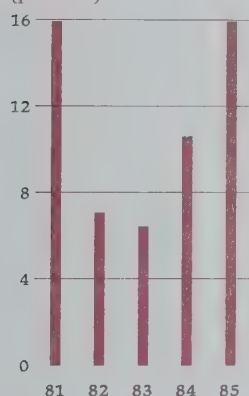
<i>Sales Volumes of Major Products</i>	1985	1984	1983
	(millions)		
<i>Cement (tons)</i>			
Canada	1.6	1.4	1.4
United States	0.8	0.7	0.5
Total	2.4	2.1	1.9
<i>Lime Products (tons)</i>			
United States	0.6	0.5	0.5
<i>Aggregates (tons)</i>			
Canada	8.9	8.3	7.9
United States	15.2	13.8	12.5
Total	24.1	22.1	20.4
<i>Concrete (cubic yards)</i>			
Canada	0.9	0.8	0.9
United States	0.9	0.9	0.8
Total	1.8	1.7	1.7
<i>Concrete Blocks (standard units)</i>			
Canada	11.3	10.6	12.4

<i>Production Capacity Utilization</i>	1985	1984	1983
<i>Cement*</i>			
Canada	64%	61%	60%
United States	100	100	80
<i>Lime Products</i>			
United States	60	55	45
<i>Aggregates</i>			
Canada	96	96	90
United States	93	83	82
<i>Concrete Products</i>			
Canada	45	47	43
United States	106	103	96

*Cement capacity does not include 1,230,000 tons of capacity not being utilized for economic reasons.

Operating income was \$103 million in 1985, up 45% from \$71 million in 1984 after an increase of 60% from \$45 million in 1983. The improvement in operating income is due primarily to the effects of better economic conditions in Genstar's markets over the past two years.

**Building Materials:
Cement, Aggregates
and Concrete Products
Return on Net Assets
(Pre-tax)
(percent)**



In the United States, 1985 was the third consecutive year of strong demand for cement, a reflection of the low interest and inflation rates, which prompted residential real estate construction, and increased federal funding for highway and other municipal improvements. The increase was attributed to continued strength in U.S. markets, operating efficiencies at modernized production facilities and reduced transportation costs.

In Canada, demand for cement improved in the prairie provinces following the first upturn in the economy in several years. Markets in British Columbia continued to experience price competition from cement imports. Export sales increased as a result of the lifting of a trade restriction by the U.S. Federal Trade Commission.

Aggregates and concrete products operations performed well in both the United States and Canada, benefitting from greater construction activity in the mid-Atlantic states and Western Canada. Sales of aggregates, concrete pipe, ready-mix and precast concrete products increased, and streamlining of some operations reduced overhead expenses and contributed to profitability.

Building Materials:

Wallboard and Roofing Products

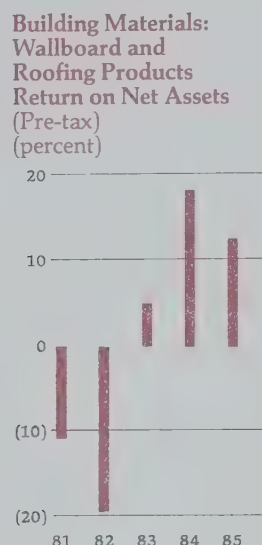
Revenues increased 10% to \$545 million in 1985, compared to \$494 million in 1984 and \$415 million in 1983.

<i>Sales Volumes of Major Products</i>	1985	1984	1983
Wallboard (billions of square feet) . .	1.3	1.6	1.4
Roofing (thousands of tons)	1,052	730	649
<i>Production Capacity Utilization</i>	1985	1984	1983
Wallboard	81%	86%	73%
Roofing	53	62	52

While revenues increased, operating income declined in 1985 to \$26 million, compared with \$32 million in 1984. Operating income was \$11 million in 1983. The decline from 1984 to 1985 was the result of a lower volume of wallboard sales and greater roofing losses due to continuing competitive price pressure and industrywide excess capacity.

In February 1985, Genstar completed the acquisition in the United States of seven roofing plants from Bird Incorporated for \$65 million, of which \$36 million represented inventories and accounts receivable. The integration of the more efficient acquired capacity with Genstar's roofing facilities continued throughout 1985 and, as a result, produc-

tion and distribution costs are expected to decline in 1986. Selling prices, however, have not increased in several years because of overcapacity in the industry that continues in spite of the closing of approximately one-third of the roofing plants in the United States in the past four years.

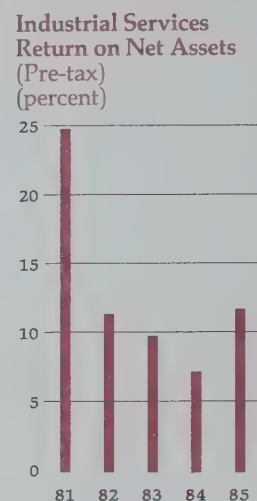


Wallboard revenues and operating income declined slightly, reflecting lower residential and commercial construction and increased competition in some market areas. Product demand, however, was particularly strong in east coast markets requiring shipments from the midwest to fill orders. Overall capacity utilization was greater than 81% in the United States. Canadian wallboard operations, which consisted of three manufacturing facilities in western Canada, were sold in the first half of 1985.

Industrial Services

Revenues in the Industrial Services category increased 88% in 1985 to \$438 million, compared with \$233 million in 1984 and \$156 million in 1983. Operating income was \$46 million in 1985, \$26 million in 1984 and \$11 million in 1983. The increase in revenues and operating income over the last two years reflects the acquisition of GSX Corpo-

ration in 1984. Smaller acquisitions in both the solid waste and chemical waste segments of the industry continued in 1985.



Of the total revenues generated by the waste services operations in 1985, approximately 85% was generated by the collection and disposal of solid waste. The remaining 15% of revenues was generated by chemical waste operations. In addition, the solid waste operations produced approximately two-thirds of this division's 1985 operating income. In January of 1986, GSX also purchased one of the largest commercial incinerators in the United States for the disposal of hazardous liquid waste. In addition, during 1985, the company received contracts for a number of new solid waste and resource recovery projects which will benefit future operating results.

Operating returns from marine activities decreased slightly from 1984 and 1983, reflecting reduced activity in the forest products industry in British Columbia, a major customer for Genstar's marine services. Both the tug and barge and the ship repair and construction operations were adversely affected. Also included in this category in 1983 is the company's interest in a joint venture in chemical and fertilizer manufacturing operations in Eastern Canada. In 1983, the company recorded a \$9-million loss resulting from operating losses and the write-off of its remaining investment in the venture.

Land and Real Estate Development

Revenues were \$471 million in 1985, compared to \$389 million in 1984 and \$440 million in 1983.

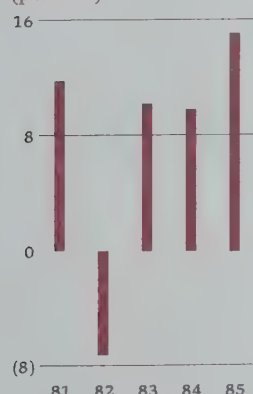
Sales Volumes	1985	1984	1983
<i>Residential Building Lots</i>			
Canada	2,203	1,982	1,851
United States	1,245	681	1,809
Total	3,448	2,663	3,660
<i>Land (acres)*</i>			
Canada	1,146	166	1,321
United States	2,527	1,818	1,310
Total	3,673	1,984	2,631
<i>Income Properties*</i>			
	(thousands of sq. ft.)		
Office Buildings	850	500	600
Shopping Centers	1,500	950	800
Business Parks	500	750	400
Total	2,850	2,200	1,800

*These statistics include both wholly-owned and joint-venture land sales and income properties.

Operating income was \$100 million in 1985, compared to \$68 million in 1984 and \$69 million in 1983.

The fluctuations in revenues and operating income between years reflect the transaction-oriented nature of the business.

Land and Real Estate Development
Return on Net Assets
(Pre-tax)
(percent)



Land and real estate development made a significant contribution to operating income in 1985, realizing an increase of 46% over 1984 on a 21% increase in revenues. The company also sold its remaining housing businesses in California early in 1985, completing its withdrawal from the house building industry in Canada and the United States.

In Canada, returns from land development increased significantly reflecting strong demand, particularly in Ontario and Manitoba. The important Alberta market continued to be soft but there was some improvement.

U.S. land development operations experienced another strong year, with demand increasing in all market areas except Houston. The company made extensive use of joint ventures and partnerships to provide more direct project financing from external sources.

Genstar continued to expand its income property portfolio in 1985 through acquisitions and development of owned sites and expects to continue this effort in 1986. As a result, fewer properties were available for sale in 1985, and revenues and income from commercial and industrial developments were lower than in 1984, particularly in the United States where several developed properties were sold the previous year.

Financing Costs

Total financing costs increased 8% in 1985 to \$212 million, following a 3% increase to \$197 million from 1983 to 1984. The increase in financing costs is primarily related to borrowings necessary to acquire Canada Trustco. Borrowing rates, which had risen slightly in 1984, declined throughout 1985. As in prior years, interest rates paid by the company on its short-term and demand debt were below the bank prime rate because of the use of bankers' acceptances, LIBOR (London Inter-Bank Offered Rate) and money-market borrowing instruments.

Financing	1985	1984	1983
	(millions of dollars)		
Financing Costs	\$ 212	\$ 197	\$ 191
Average Borrowings	\$1,901	\$1,489	\$1,589
Effective Rate	11.1%	13.2%	12.0%

The decrease in effective borrowing rates in 1985 was caused by lower bank prime rates, retirement of high interest rate debt and interest swaps.

In May, 1985, the remaining portion of the 14 3/4% debentures due in 1991 were called for redemption. This high-cost debt was initially refinanced with short-term debt and has recently been replaced with an interest rate swap fixing the cost at 10.3% for the next five years. The company also reduced the cost of its 17 1/2% debentures due in 1989 by entering into a floating-rate interest swap.

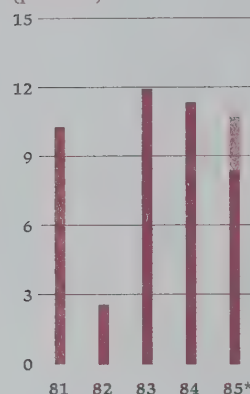
Performance Measurement

The company places great emphasis on the importance of measuring operating performance to help determine the business investments that will ensure a strong and viable future. Both internally and externally, various measures of performance have been used to compare efficiency and profitability between the divisions of Genstar and between Genstar and its competition.

The relationship between returns and the capital invested is one of the most valid and widely recognized measures of performance. The measure that the company has used extensively is return on net assets (RONA), a measure of operating income in relation to capital employed.

As indicated in the chart, RONA in 1985 was 8.6% compared to 11.6% in 1984 and 12.1% in 1983. Performance in 1985 is distorted because all of Canada Trustco's net operating assets, but only four months of income since its acquisition, are included. Excluding Canada Trustco, 1985 RONA was 11.0%. This decrease from 1984 is largely attributable to the decline in operating income as a percentage of revenues. The lower level of economic activity in Western Canada throughout most of the 1980s has prevented profitability, as measured by RONA, from returning to the levels achieved during the 1970s.

Genstar Corporation
Return on Net Assets
(Pre-tax)
(percent)



*Dark portion of bar includes all year-end operating assets of Canada Trustco, but only a part-year contribution to income. Excluding the effects of Canada Trustco, RONA would have been 11% in 1985.

Another significant performance measurement is the return on common shareholders' equity, a measurement of performance in relation to the funds invested by the company's common shareholders. Return on common shareholders' equity was 12.1% in 1985, compared to 13.1% in 1984 and 12.3% in 1983. This decline from 1984 is due to issuance of five million additional common shares in September. In comparison, a return on average common equity reflects a much smaller decline from 14.4% in 1984 to 14.2% in 1985.

A third measure of performance, which takes on added significance with the consolidation of financial services operations, is return on total assets (ROA). ROA is one of the standard measures of operating efficiency in the financial services industry. ROA was .67% in 1985, compared to 1.27% in 1984 and 1.11% in 1983. Again, the acquisition of Canada Trustco distorts the comparison between 1985 and 1984. A more meaningful comparison, excluding Canada Trustco, shows an increase in ROA to 1.43% in 1985.

Liquidity and Capital Resources

The company's primary sources of liquidity are cash provided from operations and external credit facilities. During 1985, \$278 million of funds was gener-

ated by operations. These funds were used to expand operating assets and to fund new investment opportunities.

The Statement of Changes in Financial Position on page 48 of this report shows in detail the sources of cash flow from earnings and net operating assets and the use of cash flow for longer-term investment activities. In each of the last two years funds generated from operations were more than sufficient to finance growth in operating net assets, such as loans, accounts receivable and inventories. In fact, cash generated from building materials and real estate development activities not only paid for net fixed assets and income property additions, but also provided some of the funds necessary to finance the two major acquisitions which occurred in 1985 and 1984.

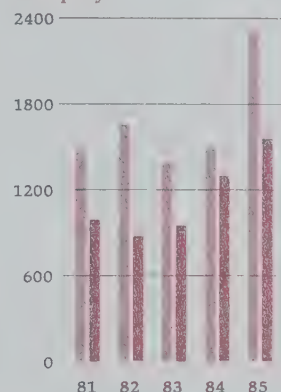
The major investment during 1985 was the acquisition of Canada Trustco for \$1.2 billion. In 1984, the acquisition of the GSX operations was the largest component of investment activities. Both of these acquisitions were funded primarily by increases in debt and both preferred and common share equity offerings.

Total capital expenditures were \$247 million in 1985, compared to \$203 million and \$259 million in 1984 and 1983, respectively. In 1985, expenditures included the acquisition of roofing plants, shopping centers and commercial properties and of electronic test equipment and shipping containers. Disposals during the year included the sale of the Canadian gypsum wallboard operations and other assets.

The total amount of financing required in 1985 was \$1.328 billion, compared to the 1984 requirement of \$269 million. In 1983, Genstar had a net paydown in financing of \$264 million, reflecting management's objective of reducing debt during a period of high interest rates. At the end of 1985, over \$1.4 billion of committed credit lines were available to the company. Of this amount, \$937 million was being utilized. This was an increase from \$388 million utilized at the end of 1984, but a decrease from \$1.3 billion utilized at September 30, 1985, after the completion of the Canada Trustco acquisition.

The principal components of the company's capital base are borrowed funds and shareholders' equity. The ratio of debt to equity at the end of 1985 was 60:40, compared with 53:47 and 59:41 at December 31, 1984 and 1983, respectively. The 1985 ratio reversed the longer-term trend in debt reduction as a result of debt incurred to finance the Canada Trustco acquisition. Genstar has reduced the acquisition debt from \$1.2 billion at the time of acquisition to approximately \$660 million at December 31, 1985, by a combination of Genstar's common share issue, Genstar Financial Corporation's preferred share issue and the reversion of surplus attributable to company contributions to salaried pension plans. The company anticipates further debt reductions in 1986 from planned asset sales.

Debt and Equity
(millions of dollars)



Debt outstanding at the end of 1985 was \$2.3 billion, as more fully described in Note 11 to the consolidated financial statements. In percentage terms, debt consisted of:

<i>Percent of Total Debt</i>	1985	1984
<i>Floating Interest Rate Debt</i>		
Short-term	19%	29%
Long-term	55	33
	74	62
<i>Fixed Interest Rate Debt</i>		
Long-term	26	38
	100%	100%

At December 31, 1985, the company had floating interest rate debt outstanding of approximately \$660 million resulting from the Canada Trustco acquisition. In addition, the company has maintained a high percentage of other debt at floating interest rates to take advantage of declining rates.

Genstar has more than \$1.4 billion of committed bank lines of credit which provide, solely at its option, the ability to fix interest rates from one to five years. Therefore, the proportion of fixed interest rate debt can be increased from 26% to approximately 80% if market conditions change.

In the United States, the company established banking relationships for the first time since 1982, including a \$125 million commercial paper program supported by bank letters of credit and the establishment of more than \$200 million of money-market lines of credit with a number of U.S. and international banks. These facilities allowed the company to borrow money at a significant saving from bank prime interest rates.

In September, Genstar sold five million common shares at a price of \$31.625 per share to partially finance the purchase of Canada Trustco. Genstar Financial Corporation, the financial services subsidiary of the company, also sold \$300 million of 9% preferred stock in Canada, its initial offering of shares. The shares are retractable by the shareholder and redeemable by the company in 1990.

Genstar Financial Corporation, also sold \$75 million of 11 3/4% debentures, due in 1995, in the Euro-Canadian market in its initial offering of a debt instrument to the public.

Despite a decrease in the ratio of equity to total capitalization, common shareholders' equity increased significantly in 1985 from the issue of 5,000,000 common shares during September and from earnings retained in the company. In addition, almost all of the outstanding Series C convertible second preferred shares were converted to common shares in March 1986.

The Securities and Exchange Commission (SEC) requires that capital stock with mandatory redemption provisions be reported separately from other elements of shareholders' equity and be considered as debt in computing balance sheet ratios. This approach ignores the respective rights of the holders of these shares and, in particular, the holders of convertible shares. In addition, minority interest is also considered by the SEC to be a form of debt. Using these guidelines, Genstar's total debt-to-equity ratios would be 69:31 in 1985, 62:38 in 1984 and 65:35 in 1983.

Equity Income

Included in third-party revenues is the company's share of the income or loss from joint ventures and investments accounted for on the equity basis. Total equity income amounted to \$5 million in 1985, compared to losses of \$12 million in 1984 and \$27 million in 1983. In 1985, \$8 million of this equity income is included in the revenues of the land and real estate development category, compared to losses of \$12 million in 1984 and \$14 million in 1983.

Inflation-Adjusted Results

The information included in Note 23 to the consolidated financial statements restates certain balance sheet and statement of income items for the effects of inflation using methods prescribed by financial accounting authorities in Canada and the United States.

Income Tax Considerations for U.S. Individual Shareholders

Dividends are paid in Canadian and U.S. dollars and other currencies depending upon the residence of the shareholder. Dividends paid to United States resident shareholders in 1985 were subject to a 15% withholding tax. Generally, dividends received by United States citizens or residents are subject to U.S. income tax on the amount of the dividend, but either a credit or a deduction for Canadian income tax withheld may be claimed. Because Genstar is not a United States domestic corporation, the partial exclusion of dividends received by individuals from U.S. corporations is not available.

Share Capital

Genstar's voting share capital consists of 40.9 million common and preference shares. At December 31, 1985, 90% of the voting shares were registered, and the balance were in bearer form. Below is a summary of the voting shareholdings of the company, which shows that during 1985 the number of

voting shareholders declined slightly while the number of shares outstanding increased. Canadian shareholders increased their holdings to 60% of the voting shares and U.S. shareholdings remained constant compared to 1984. Information regarding trading volume and price information is included in Note 22 to the consolidated financial statements.

Shareholdings

		1985				1984			
		Shareholders Number	%	Shareholdings Shares (millions)	%	Shareholders Number	%	Shareholdings Shares (millions)	%
Common and Voting Preferred	Canada	8,583	78	24.4	60	9,127	77	18.7	53
	United States	2,370	21	9.2	22	2,591	22	7.8	22
	Bearer	*	—	3.9	10	*	—	4.3	12
	Other Countries	132	1	3.4	8	142	1	4.8	13
		11,085	100	40.9	100	11,860	100	35.6	100

*The ownership of bearer shares is unknown.

Financial Data by Geographic Area

		1985	1984	1983	1982	1981
		(millions of Canadian dollars)				
Revenues	Canada and other*					
	Financial services	1542.6	1,016.6	964.9	965.5	414.3
	Other operations	659.9	616.9	671.2	801.3	1,049.9
	United States					
	Financial services	240.5	219.1	218.0	160.7	134.3
	Other operations	1,588.9	1,206.7	1,017.4	874.5	1,030.5
	Total	\$ 4,031.9	\$ 3,059.3	\$2,871.5	\$2,802.0	\$2,629.0
Operating Income	Canada and other*					
	Financial services	81.6	110.9	90.6	62.6	29.7
	Other operations	87.2	43.9	58.3	82.2	200.3
	United States					
	Financial services	82.5	62.3	103.7	66.2	43.4
	Other operations	136.9	111.5	47.8	(142.5)	(12.0)
	Total	\$ 388.2	\$ 328.6	\$ 300.4	\$ 68.5	\$ 261.4
Identifiable Assets	Canada and other*					
	Financial services	22,356.3	7,485.7	6,816.5	6,025.9	5,754.4
	Other operations	919.2	824.9	866.5	1,031.4	1,127.2
	United States					
	Financial services	625.8	655.4	497.9	499.8	283.8
	Other operations	1,468.8	1,414.0	1,105.2	1,204.2	1,304.0
	Total	\$25,370.1	\$10,380.0	\$9,286.1	\$8,761.3	\$8,469.4

*Includes jurisdictions outside North America.

*Results by Industrial Category*For the five years ended December 31, 1985
(millions of Canadian dollars)

		<i>Revenues</i>		
		Third Party	Inter- Category	Total
<i>Financial Services</i>				
Mortgage lending; retail and commercial banking; mortgage banking; fiduciary services; venture capital investment; arbitrage investments; real estate sales brokerage; leveraged leasing; leasing of transportation containers; rental of electronic test and measurement equipment.	1985	1,783.1	.4	1,783.5
	1984	1,235.7	—	1,235.7
	1983	1,182.9	—	1,182.9
	1982	1,126.2	.5	1,126.7
	1981	548.6	—	548.6
<i>Building Materials:</i>				
<i>Cement, Aggregates and Concrete Products</i>				
Manufacture of normal portland and specialty cements, lime, precast/prestressed concrete components, concrete blocks, pipe and railway ties; production of ready-mix and asphaltic concrete, classified sand, gravel, aggregates, crushed stone, calcium carbonate, and packaged home repair materials; municipal construction and real estate subdivision servicing.	1985	794.1	11.5	805.6
	1984	708.6	4.7	713.3
	1983	677.1	5.2	682.3
	1982	764.2	5.5	769.7
	1981	883.4	38.7	922.1
<i>Building Materials:</i>				
<i>Wallboard and Roofing Products</i>				
Manufacture of gypsum wallboard, asphalt shingles and other roofing products and asphaltic adhesives.	1985	545.2	.2	545.4
	1984	493.5	.4	493.9
	1983	414.8	.2	415.0
	1982	440.3	.6	440.9
	1981	541.3	—	541.3
<i>Industrial Services</i>				
Refuse collection; solid and chemical waste transfer and landfilling; methane gas recovery; emergency chemical waste clean-up services; rubber reclamation and recycling; tug and barge transportation; ship-building and repairs.	1985	438.2	4.3	442.5
	1984	233.0	4.0	237.0
	1983	156.4	4.0	160.4
	1982	186.4	2.7	189.1
	1981	186.5	2.9	189.4
<i>Land and Real Estate Development</i>				
Development of residential, commercial and industrial land; construction of shopping centers, office buildings, industrial parks and warehouses.	1985	471.3	.1	471.4
	1984	388.5	.2	388.7
	1983	440.3	.1	440.4
	1982	284.9	9.4	294.3
	1981	469.2	2.9	472.1
<i>Corporate and Unallocated Items</i>				
General and administrative expenses and assets of the company's corporate offices. Certain corporate revenues, costs, depreciation expenses and net assets are allocated to the industrial categories.	1985	—	—	—
	1984	—	—	—
	1983	—	—	—
	1982	—	—	—
	1981	—	—	—
<i>Consolidated</i>				
Inter-category revenues are at market prices and must be deducted from cost of sales and total costs and expenses (on adjoining page) to calculate costs and expenses as shown in the consolidated statements of income.	1985	\$4,031.9	\$16.5	\$4,048.4
	1984	3,059.3	9.3	3,068.6
	1983	2,871.5	9.5	2,881.0
	1982	2,802.0	18.7	2,820.7
	1981	2,629.0	44.5	2,673.5

*Net operating assets are calculated by deducting non-interest bearing liabilities, except income taxes, and customer demand and term deposits, from the identifiable assets of each category. General corporate assets are allocated among the categories. **Pre-tax return on net assets is the performance measurement obtained by dividing income before interest and taxes by year-end net operating assets. ***Includes financial services customer deposit interest.

Costs and Expenses

***Cost of Revenues	Selling General and Administrative	Depreciation Depletion and Amortization	Total	Operating Income	*Net Operating Assets	**Pre-Tax Return on Net Assets (percent)	Identifiable Assets	Capital Expenditures
1,283.8	275.2	60.4	1,619.4	164.1	2,611.6	****6.3	22,982.1	56.5
858.1	156.4	48.0	1,062.5	173.2	940.8	18.4	8,141.1	128.8
806.4	138.0	44.2	988.6	194.3	805.1	24.1	7,314.4	114.3
860.6	107.1	30.2	997.9	128.8	791.7	16.3	6,525.7	102.7
410.6	47.6	17.3	475.5	73.1	468.0	15.6	6,038.2	30.3
591.0	65.3	45.9	702.2	103.4	649.6	15.9	773.0	24.4
536.9	60.1	44.9	641.9	71.4	670.2	10.7	772.8	25.5
527.2	66.0	44.4	637.6	44.7	688.6	6.5	766.9	17.2
607.5	67.6	43.2	718.3	51.4	727.0	7.1	857.0	34.9
664.6	78.8	50.3	793.7	128.4	804.5	16.0	977.2	103.7
454.4	46.1	18.6	519.1	26.3	210.4	12.5	308.4	48.3
407.5	36.1	18.4	462.0	31.9	173.7	18.4	250.2	13.7
360.8	30.1	13.2	404.1	10.9	228.4	4.8	256.8	15.7
425.5	40.0	15.2	480.7	(39.8)	205.0	(19.4)	258.6	18.6
502.1	50.9	14.7	567.7	(26.4)	252.2	(10.5)	310.8	20.5
302.5	50.8	42.9	396.2	46.3	391.4	11.8	472.1	44.9
168.9	24.8	17.5	211.2	25.8	347.1	*****7.4	400.7	5.8
125.9	13.9	9.9	149.7	10.7	109.2	9.8	135.1	6.3
152.2	13.3	9.7	175.2	13.9	121.2	11.5	139.6	5.3
131.8	16.1	10.6	158.5	30.9	123.5	25.0	155.1	14.5
338.2	30.5	2.7	371.4	100.0	653.7	15.3	759.4	70.9
266.5	49.7	4.1	320.3	68.4	701.3	9.8	763.1	26.5
304.7	62.9	4.1	371.7	68.7	661.8	10.4	768.8	105.3
281.5	64.8	4.2	350.5	(56.2)	778.9	(7.2)	919.0	94.0
299.1	67.0	3.2	369.3	102.8	876.2	11.7	930.2	7.4
—	51.9	—	51.9	(51.9)	—	—	75.1	1.6
—	42.1	—	42.1	(42.1)	—	—	52.1	2.5
.5	28.4	—	28.9	(28.9)	—	—	44.1	.6
.7	28.9	—	29.6	(29.6)	—	—	61.4	5.8
3.0	44.4	—	47.4	(47.4)	—	—	57.9	6.9
\$2,969.9	\$519.8	\$170.5	\$3,660.2	\$388.2	\$4,516.7	****8.6	\$25,370.1	\$246.6
2,237.9	369.2	132.9	2,740.0	328.6	2,833.1	11.6	10,380.0	202.8
2,125.5	339.3	115.8	2,580.6	300.4	2,493.1	12.1	9,286.1	259.4
2,328.0	321.7	102.5	2,752.2	68.5	2,623.8	2.6	8,761.3	261.3
2,011.2	304.8	96.1	2,412.1	261.4	2,524.4	10.4	8,469.4	183.3

****Operating income from Canada Trustco Mortgage Company is included only for the last four months of 1985. Pre-tax returns excluding Canada Trustco Mortgage Company would have been 9.9% for the financial services category and 11.0% for the consolidated results. *****Operating income from the GSX acquisition is included only for the last quarter of 1984. The pre-tax returns based on average net operating assets (instead of only year-end) would have been 11.3% for the Industrial Services category.

The company's accounting policies conform in all material respects with generally accepted accounting principles (GAAP) in Canada and the U.S., except as set out below for foreign exchange.

Consolidation

These consolidated financial statements include the accounts of Genstar Corporation and its subsidiaries, including Genstar Financial Corporation, a financial services subsidiary (see Note 21). Subsidiaries are consolidated from the date of acquisition on the basis of purchase accounting.

Investments in 50% or less owned joint ventures are accounted for on the equity method.

Foreign Exchange

Assets of subsidiaries for which the functional currency is the U.S. dollar, and related liabilities, are translated into Canadian dollars at the year-end rate of exchange, while revenues and expenses are translated at the average exchange rate for the year. Unrealized balance sheet amounts are maintained as a separate balance sheet account until such time as the related foreign currency investment is realized in Canadian dollars.

Amounts denominated in foreign currencies other than the U.S. dollar are translated at historical exchange rates for non-monetary items, and at the year-end exchange rate for monetary items. Translation fluctuations are included in income for the period, other than those associated with long-term debt which are amortized straight-line over the remaining term to maturity of the debt, which is at variance with United States GAAP as outlined in Note 21.

Securities

Bonds and debentures are stated at amortized cost plus accrued interest. Stocks are stated at cost plus dividends declared unless market declines are considered to be other than temporary. In determining gain or loss on securities sales, the cost of securities is based principally on the specific identification method.

Loans

Mortgage, commercial and personal loans are carried at cost plus accrued interest less repayments and allowance for possible losses. Provisions for possible losses on loans are based upon payment delinquency information, historical trends and other factors which in management's judgment deserve recognition. Losses are charged against the allowance as realized.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost of manufactured goods is determined principally at average on the first-in first-out basis and includes all direct overhead except depreciation. Cost of land and real estate inventories is determined on a specific item basis and includes the cost of services such as roads, sewage and water systems on land under development.

Income Properties

Properties held for and under development are stated at the lower of cost or estimated net realizable value. Income producing properties are stated at cost less accumulated depreciation and are not written down unless their value is permanently impaired. Cost includes all direct costs of development and construction including carrying costs such as interest, property taxes and net operating costs incurred during the development phase. Administrative overhead expenses are not capitalized. Depreciation on buildings is provided straight-line over 40 years.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Expenditures for additions, improvements and renewals are capitalized and expenditures for maintenance and repairs are charged to income. When assets are sold or retired, their cost and accumulated depreciation or depletion are removed from the accounts and any gain or loss resulting from their disposal is included in income.

Depreciation of fixed assets, except land, is provided by annual charges to income on the straight-line method based on estimated useful lives ranging from 20 to 40 years for buildings, from 5 to 25 years for machinery and equipment, and 7 to 15 years for rental and lease equipment. Landfill sites are depreciated, on the basis of capacity used, to their estimated residual value. Depletion of quarries and gravel deposits is calculated on the unit of extraction method.

Revenue Recognition

Fees and commissions are recorded as income when received. All other financial services income is recorded on the accrual basis.

Revenues from the sale of manufactured products are recognized upon passage of title to the customer, which generally coincides with their delivery and acceptance. Revenues from the sale of land and real estate are recognized in the period in which the transactions occur, provided collectibility of the proceeds is reasonably assured. Notes receivable taken back on land and real estate sales are adjusted to reflect market interest rates.

Revenues from construction and shipbuilding contracts are recognized on the percentage of completion method and any losses are provided for as they become known. Claims for additional contract compensation are not recognized in income until resolved.

Deferred revenues result from the contributions of assets to partnerships or joint ventures at a value in excess of cost, the sale of the future production from limestone deposits, the sale and leaseback of fixed assets at a value in excess of cost and the reversion of excess assets from pension plans (see Note 19). Income is recognized as sales are made to third parties or over the term of the lease in the case of the sale and leaseback transactions.

*Consolidated Statements of Income*For the years ended December 31, 1985, 1984 and 1983
(thousands of Canadian dollars)

		1985	1984	1983
<i>Revenues</i>	Financial services	1,783,065	1,235,684	1,182,898
	Building materials and services	1,339,346	1,202,077	1,091,900
	Industrial services	438,163	233,059	156,390
	Land and real estate development	471,281	388,511	440,320
		4,031,855	3,059,331	2,871,508
<i>Cost and Expenses</i>	Cost of revenues	1,889,154	1,526,859	1,460,816
	Financial services			
	customer deposit interest	1,064,243	701,823	655,118
	Selling, general and administrative	519,786	369,153	339,308
	Depreciation, depletion and amortization	170,462	132,898	115,854
		3,643,645	2,730,733	2,571,096
<i>Operating Income</i>		388,210	328,598	300,412
<i>Financing Costs</i>		211,683	196,545	190,772
<i>Income before Income Taxes</i>		176,527	132,053	109,640
<i>Provision for Income Taxes</i>		5,300	300	6,600
<i>Net Income for the Year</i>		\$ 171,227	\$ 131,753	\$ 103,040
<i>Net Income</i>				
<i>Per Common Share</i>	<i>Canadian Method</i>			
	Basic	\$4.16	\$3.56	\$2.83
	Fully diluted	3.82	3.38	2.72
	<i>United States Method</i>			
	Primary	3.82	3.38	2.72
	Fully diluted	3.82	3.38	2.72

The accompanying notes are an integral part of these financial statements.

*Consolidated Balance Sheets*As at December 31, 1985 and 1984
(thousands of Canadian dollars)

		1985	1984
<i>Assets</i>			
<i>Financial Services</i>	Cash and short-term notes	2,843,399	999,947
	Receivables and other assets	266,052	160,966
	Securities	2,965,095	964,405
	Mortgage, personal and commercial loans	15,499,157	5,510,604
	Income properties	263,757	—
	Fixed assets	468,496	343,991
	Intangible assets	709,619	152,966
		23,015,575	8,132,879
<i>Building Materials</i>	Accounts receivable and other assets	213,071	197,845
	Inventories	142,933	122,433
	Fixed assets	708,372	703,958
	Intangible assets	34,733	36,789
		1,099,109	1,061,025
<i>Industrial Services</i>	Accounts receivable and other assets	118,537	85,416
	Fixed assets	198,857	200,887
	Intangible assets	162,666	125,381
		480,060	411,684
<i>Land and Real Estate Development</i>	Accounts, mortgages and notes receivable	156,033	110,476
	Inventories	277,884	411,771
	Income properties	250,283	167,547
	Joint ventures and other assets	91,141	84,647
		775,341	774,441
		\$25,370,085	\$10,380,029

On behalf of the Board



Director



Director

		1985	1984
<i>Liabilities and Shareholders' Equity</i>			
<i>Financial Services</i>	Customer demand and term deposits	20,202,253	6,910,619
	Accounts payable and other liabilities	284,988	282,395
	Income taxes	85,765	28,389
		20,573,006	7,221,403
<i>Other Operations</i>	Accounts payable and other liabilities	375,653	273,794
	Deferred revenue	119,495	66,967
	Income taxes	(4,652)	27,872
		490,496	368,633
<i>Debt</i>		2,309,917	1,469,994
<i>Minority Interests in Subsidiaries</i>		436,433	35,909
<i>Preferred Shares</i>	Redeemable preferred shares	220,775	220,775
	Convertible redeemable preferred shares	205,140	205,065
		425,915	425,840
<i>Common Shareholders' Equity</i>	Common shares and contributed surplus	476,443	312,886
	Retained earnings	558,975	465,764
	Unrealized foreign exchange	98,900	79,600
		1,134,318	858,250
		\$25,370,085	\$10,380,029

The accompanying notes are an integral part of these financial statements.

*Consolidated Statements of Changes in Financial Position*For the years ended December 31, 1985, 1984 and 1983
(thousands of Canadian dollars)

		1985	1984	1983
<i>Operations</i>	Net income for the year	171,227	131,753	103,040
	Items not affecting funds:			
	Depreciation, depletion and amortization	170,462	132,898	115,854
	Deferred income taxes	(34,100)	(15,800)	(53,300)
	Equity income and other	(29,542)	(23,818)	20,452
	Funds Generated by Operations	\$ 278,047	\$ 225,033	\$ 186,046
<i>Operating Net Assets</i>	Financial Services			
	Cash, short-term notes and securities	473,377	(339,529)	(168,568)
	Loans	(1,458,642)	(347,229)	(594,666)
	Deposits	759,478	555,793	697,449
	Receivables, payables and income taxes	(10,121)	53,433	141,642
		(235,908)	(77,532)	75,857
	Other Operations			
	Accounts receivable	(107,327)	(60,299)	51,488
	Inventories	113,387	(32,036)	167,199
	Accounts payable and income taxes	97,049	35,995	(13,566)
	Foreign exchange translation effects	7,255	16,659	(4,198)
		110,364	(39,681)	200,923
	Net Funds Generated by (Required for) Operating Net Assets	\$ (125,544)	\$(117,213)	\$ 276,780
<i>Investment Activities</i>	Acquisitions			
	Canada Trustco Mortgage Company	(1,186,315)	—	—
	GSX Corporation	(10,845)	(264,000)	—
		(1,197,160)	(264,000)	—
	Fixed Assets, Income Properties and Joint Ventures			
	Financial Services			
	Disposals	21,830	43,221	8,701
	Additions	(105,968)	(124,334)	(114,614)
		(84,138)	(81,113)	(105,913)
	Other Operations			
	Disposals	115,153	138,173	146,813
	Additions	(244,616)	(123,108)	(203,303)
		(129,463)	15,065	(56,490)
	Net Funds Required for Investment Activities	\$(1,410,761)	\$(330,048)	\$(162,403)
<i>Dividends</i>		\$ (70,154)	\$ (46,367)	\$ (36,737)
	Net Funds Available (Required) for Financing Activities	\$(1,328,412)	\$(268,595)	\$ 263,686

<i>Consolidated Statements of Changes in Financial Position</i> (continued)		1985	1984	1983
<i>Financing Activities</i>	Issue of long-term debt	997,273	65,501	98,105
	Repayment of long-term debt	(254,311)	(30,615)	(35,896)
	Issue of common and preferred shares	155,770	206,798	5,564
	Increase in minority interests	357,790	15,165	(577)
	Deferred revenue	52,528	(13,295)	(8,610)
	Increase (decrease) in short-term borrowings	19,362	25,041	(322,272)
	Financing Generated (Required)	\$ 1,328,412	\$ 268,595	\$(263,686)

Consolidated Statements of Retained Earnings

For the years ended December 31, 1985, 1984 and 1983
(thousands of Canadian dollars)

	1985	1984	1983
<i>Retained Earnings</i> <i>Beginning of Year</i>	465,764	383,099	316,796
Net income for the year	171,227	131,753	103,040
	636,991	514,852	419,836
Dividends—preferred shares	33,585	19,605	14,848
—common shares	36,569	26,762	21,889
	70,154	46,367	36,737
Share issue expenses (net of income taxes)	7,862	2,721	—
	78,016	49,088	36,737
<i>Retained Earnings</i> <i>End of Year</i>	\$558,975	\$465,764	\$383,099

The accompanying notes are an integral part of these financial statements.

1. Business Combinations

Canada Trustco Mortgage Company

Through a cash tender offer, Genstar Acquisition Corporation, a subsidiary of the company, acquired, effective August 27, 1985, 98.5% of the common shares of Canada Trustco Mortgage Company (Trustco) which, together with 10,000 common share purchase warrants, represents 93.5% of their common shares on a fully diluted basis.

The consolidated financial statements include the results of operations of Trustco from the effective date of the acquisition. Details of the acquisition, which has been accounted for on the purchase basis of accounting, are as follows:

	(thousands of dollars)	
Net tangible assets at the book value of Trustco	551,066	
Less: Minority interest — preferred shares of Trustco	(35,000)	
— common shares of Trustco	(7,734)	
Net tangible assets acquired at book value	508,332	
Allocation of excess of cost over book value:		
Tangible net assets — Mortgage, personal and commercial loans	55,400	
— Customer demand and term deposits	(67,200)	
— Securities	36,600	
— Income properties	42,000	
— Premises and equipment	28,600	95,400
Identifiable intangible assets		
— Financial intermediary	111,000	
— Fiduciary	60,000	171,000
Residual intangible assets		411,583
Total purchase price of Trustco		\$1,186,315

The company's net income will be adjusted to amortize the excess purchase price allocations over the term to maturity of financial assets and liabilities, which in most cases occurs by 1990, over the remaining estimated useful lives of 10 to 36 years for properties and equipment, over 5 to 25 years for identifiable intangible assets and over 30 years for residual intangible assets.

Assuming that the acquisition had taken place on January 1, 1984, and that the financing of the purchase and the required amortization of the excess purchase price remained unchanged, with an average cost of bank borrowings of 11% in 1985 and 12% in 1984, the theoretical pro forma results of operations of the company would have been as follows:

	1985	1984
	(thousands of dollars)	
Revenues	\$4,985,400	\$4,256,200
Net income	155,000	95,100
Net income per common share		
Canadian method — basic	\$ 3.30	\$ 2.07
— fully diluted	3.13	2.06
U.S. method — primary	3.13	2.06
— fully diluted	3.13	2.06

The theoretical pro forma results of operations, as presented above, are not necessarily indicative of either the results of operations that would have

occurred had the acquisition taken place on January 1, 1984 or of the company's future results of operations.

The acquisition of Trustco and the related financing resulted in the following changes in the company's financial position:

	(thousands of dollars)
Increase in long-term debt	\$ 743,700
Increase in common shares and contributed surplus	158,500
Increase in tangible assets	13,284,200
Increase in tangible liabilities	12,637,400
Decrease in retained earnings	7,900
Increase in intangible assets	582,600
Increase in minority interests of financial service operations	342,700
Decrease in deferred taxes	7,600

Effective with the close of business on December 31, 1985, the company amalgamated Canada Trustco with its other Canadian trust company subsidiary, Canada Permanent Mortgage Corporation. The combined company operates under the name Canada Trustco Mortgage Company. Excluding this footnote, references in these financial statements to Canada Trustco Mortgage Company represent the amalgamated company.

GSX Corporation

In the third quarter of 1984, GSX Corporation (GSX), was formed as a subsidiary to acquire, in partnership with a third party, the outstanding shares of another company engaged in providing waste

disposal services. GSX's initial share of the cost of this acquisition was \$264 million and it received approximately 42% of the acquired company's assets and operations. Pursuant to an agreement with its partner, if GSX elected to dispose of any of the acquired businesses within nine months of the acquisition date, the partner was obligated to make up any shortfall between the sales price and the portion of GSX's total contribution allocated to that business. Subsequently, GSX made additional investments of \$36.8 million and elected to dispose of certain of the acquired businesses with an original allocated purchase price of \$26 million. Accordingly, GSX's final contribution to the purchase of its share of the businesses amounted to \$274.8 million.

The excess of this purchase price over the book value of the assets acquired amounted to \$107.8 million and was allocated primarily to fixed assets and intangible assets. The purchase price allocation to fixed assets is being amortized straight-line over the remaining useful lives of 10 to 15 years for the depreciable portion of those assets. Intangible assets arising from the acquisition are being amortized straight-line over 15 years for identifiable assets and 40 years for residual intangibles. The investments in 1984 and 1985, and subsequent partial divestiture in 1985, of these operations resulted in the following changes in the company's financial position:

	1985	1984	Net Investment
	(thousands of dollars)		
Increase (decrease) in fixed assets, primarily land and landfill sites	(8,977)	122,169	113,192
Increase (decrease) in intangible assets	22,343	119,860	142,203
Increase (decrease) in operating working capital	(2,521)	21,971	19,450
	\$ 10,845	\$264,000	\$274,845

2. Accounting for Investment Tax Credits

Effective January 1, 1985, in conformity with recommendations of the Canadian Institute of Chartered Accountants, the company prospectively changed its method of accounting for investment tax credits (ITC) to the cost reduction method. Under this method, the benefit of ITC is amortized to income over the same life, and on the same basis, as the related assets. Previously, the company had used the flow-through method whereby the full amount of

ITC was credited to income in the year that the related assets were placed in service. The effect of this change was to increase income tax expense and reduce net income by \$2,522,000 for the year ended December 31, 1985. The cumulative effect of this change on retained earnings as at December 31, 1984 is not determinable and, therefore, has not been recognized.

3. Securities

	1985		1984	
<i>Financial Services</i>	Book Value	Market Value	Book Value	Market Value
<i>Marketable Securities</i>				
	(thousands of dollars)			
Bonds and Debentures				
Canada	708,014	714,605	78,207	79,059
Provinces of Canada	286,735	286,020	34,929	33,990
Corporate and other	300,319	306,351	423,678	424,134
	1,295,068	1,306,976	536,814	537,183
Stocks				
Preference	1,448,060	1,453,709	311,542	348,384
Common	154,347	262,356	74,713	141,351
	1,602,407	1,716,065	386,255	489,735
	2,897,475	\$3,023,041	923,069	\$1,026,918
<i>Non-Marketable Securities, primarily common stocks</i>	67,620		41,336	
	\$2,965,095		\$ 964,405	

Gains on sale of securities recognized in income were \$52,238,000, \$62,174,000, and \$99,661,000 in 1985, 1984 and 1983 respectively.

4. Mortgage, Personal and Commercial Loans

	1985	1984
(thousands of dollars)		
<i>Financial Services</i>		
Mortgage	11,380,109	4,315,134
Commercial	3,210,731	924,305
Personal	1,007,375	301,234
	15,598,215	5,540,673
Allowance for loan losses	99,058	30,069
	\$15,499,157	\$ 5,510,604

Provisions for loan losses charged against income and included in other cost of revenues were \$15,347,000, \$13,539,000 and \$32,891,000 for the years ended December 31, 1985, 1984 and 1983, respectively.

Write-offs charged against the allowance for loan losses were \$11,518,000, \$15,939,000 and \$11,151,000 in 1985, 1984 and 1983, respectively. The purchase of Canada Trustco resulted in an increase in the allowance of \$65,160,000 in 1985.

5. Inventories

	1985	1984
(thousands of dollars)		
<i>Building Materials</i>		
Finished goods	68,551	58,030
Raw materials, repair parts and work in process	74,382	64,403
	\$142,933	\$122,433
<i>Land and Real Estate Development</i>		
Development land	\$277,884	\$411,771

6. Income Properties

	1985	1984
<i>Financial Services</i>	(thousands of dollars)	
Properties under development	38,134	—
Income producing properties	239,809	—
	277,943	—
Accumulated depreciation	14,186	—
	\$263,757	—
Depreciation expense	\$ 670	—
<i>Land and Real Estate Development</i>		
Properties under development	127,130	42,655
Income producing properties	128,568	129,086
	255,698	171,741
Accumulated depreciation	5,415	4,194
	\$250,283	\$167,547
Depreciation expense (1983-\$2,150)	\$ 2,437	\$ 2,546

7. Fixed Assets

	Financial Services	Building Materials	Industrial Services	Land and Real Estate Development*
<i>As at December 31, 1985:</i>	(thousands of dollars)			
Land	9,910	32,734	13,697	—
Buildings	161,644	238,866	30,811	360
Quarries, gravel deposits and landfill sites	—	64,839	41,912	—
Machinery and equipment	110,362	948,140	332,835	4,379
Rental and lease equipment	395,047	—	—	—
	676,963	1,284,579	419,255	4,739
Accumulated depreciation, depletion and amortization	208,467	576,207	220,398	2,406
	\$ 468,496	\$ 708,372	\$ 198,857	\$ 2,333
<i>As at December 31, 1984:</i>				
Land	3,340	33,552	8,603	1,012
Buildings	73,497	231,592	32,400	5,262
Quarries, gravel deposits and landfill sites	—	60,236	34,809	—
Machinery and equipment	46,142	908,557	328,706	10,026
Rental and lease equipment	352,301	—	—	—
	475,280	1,233,937	404,518	16,300
Accumulated depreciation, depletion and amortization	131,289	529,979	203,631	7,635
	\$ 343,991	\$ 703,958	\$ 200,887	\$ 8,665

*Included in Joint Ventures and Other Assets of the Land and Real Estate Development Category.

Included in fixed assets at December 31, 1985 is construction in progress of \$50,000,000 with an estimated cost to complete of \$41,000,000. Information concerning fixed assets held under capitalized leases is included in Note 18.

8. Intangible Assets

Intangible assets comprise intangible assets arising from acquisitions and debt discount, net of accumulated amortization.

Intangible assets arising from acquisitions represent the excess of cost over the fair value of net tangible assets acquired. Intangible assets arising from acquisitions subsequent to November 1, 1970 are amortized to income over periods up to forty years.

Non-amortizable intangible assets arising from acquisitions prior to November 1, 1970 amounted to \$31,929,000 at December 31, 1985 and 1984. Unamortized intangible assets are charged to income in the event of a permanent diminution in value.

Debt discount represents the difference between the present value of debt assumed, based upon then current market interest rates, and the present value of debt assumed based upon stated interest rates, and is amortized over the remaining term of the related debt. Debt discount was \$9,250,000 and \$9,389,000 at December 31, 1985 and 1984, respectively.

As more fully described in Note 1, the acquisition of 98.5% of Canada Trustco Mortgage Company during 1985 and GSX during 1984 resulted in increases in amortizable intangible assets of \$582,583,000 and \$142,203,000, respectively.

9. Joint Ventures

The company is a partner in a number of incorporated and unincorporated joint ventures engaged in the development and financing of real estate, con-

struction and marine financing activities. The following is a summary of the combined operations and financial position of these ventures.

	1985	1984	1983
	(thousands of dollars)		
<i>Operations</i>			
Revenues	146,449	198,230	316,591
Expenses	183,318	209,253	380,317
	(36,869)	(11,023)	(63,726)
Income (loss) allocated to other partners	(3,784)	3,366	(40,941)
Loss allocated to company	\$ (33,085)	\$ (14,389)	\$ (22,785)
<i>Net Assets Employed</i>			
Accounts and loans receivable and other assets	169,577	79,186	121,963
Fixed assets	24,026	16,227	41,552
Land, real estate under development and other inventories	345,002	469,042	460,942
	538,605	564,455	624,457
Accounts payable and other liabilities	73,222	45,935	78,337
	\$465,383	\$518,520	\$546,120
<i>Financed by</i>			
Mortgages and loans payable	352,836	414,960	483,982
Equity and advances by other partners	64,978	59,402	13,171
Equity and advances by the company	47,569	44,158	48,967
	\$465,383	\$518,520	\$546,120

The loss of \$33,085,000 allocated to the company for 1985 does not reflect \$18,502,000 in gains on sales of the company's interests in certain joint ventures.

In general, liabilities of joint ventures are secured by pledges of the related assets. At times, the joint ventures partners may further support these obligations should the realization from joint venture assets

not be sufficient. As a general partner in certain unincorporated ventures, the company is contingently liable at December 31, 1985 for the other partners' share of liabilities of \$13,300,000 should the other partners not be able to satisfy them, as well as for its own share of \$10,000,000 compared to \$50,500,000 and \$50,000,000, respectively at December 31, 1984.

As a limited partner in other ventures, the company is a guarantor of partnership liabilities of \$7,000,000 at December 31, 1985 compared to \$16,500,000 at December 31, 1984. Under certain partnership agreements, the company is also committed to make additional investments of \$526,000.

In addition, the company has agreed to purchase land from a partnership in sufficient quantities to enable the partnership to meet principal and interest requirements for \$94,600,000 of loans if the partner-

ship is unable to do so from its own resources. During 1985, the company purchased land for approximately \$21,700,000 under this agreement. These loans bear interest at 9.75%, mature to 1993 and require the following payments of principal over the next five years:

1986: \$12,700,000	1987: \$12,700,000
1988: \$12,600,000	1989: \$12,600,000
1990: \$12,600,000	

10. Customer Demand and Term Deposits

	1985	1984
	(thousands of dollars)	
<i>Financial Services</i>		
Demand	7,361,657	1,069,337
Cashable term	1,487,341	724,547
Term	11,353,255	5,116,735
	<u>\$20,202,253</u>	<u>\$ 6,910,619</u>

11. Debt

	1985	1984
	(thousands of dollars)	
<i>Genstar Corporation</i>		
<i>Fixed Interest Rate Debt</i>		
<i>Debentures</i>		
6 1/2% convertible due in 1988(a)	3,966	5,314
7% due in 1991(b)(c)	67,860	50,800
10 3/4% due in 1999(c)	44,000	46,000
11 1/4% due in 1996(c)	33,106	34,490
10% due to 1989(a)(c)	51,549	51,468
11% sinking fund debenture due to 1996(a)	19,579	23,601
11 3/4% due to 1995(c)	14,450	14,871
17 1/2% due in 1989(a)(c)	104,965	98,967
9% convertible due in 1985(a)	—	4,955
14 3/4% due to 1991(a)(c)	—	57,684
<i>Capital Lease Obligations</i>		
5 3/4% to 6 1/2% revenue bonds due to 1998(a)	20,811	21,832
5.9% to 16 7/8% building and equipment leases due to 1999(a)	8,317	9,969
11% Term Bank Loan due to 1989(a)	26,443	25,410
<i>Non-Interest Bearing to 12 3/4% notes, mortgages and debentures due to 2007(a)</i>	<i>36,388</i>	<i>36,751</i>
<i>Short-term Debt</i>		
Real estate advances collateralized by related properties, generally at fixed rates ranging from 7 1/2% to 18%	55,769	62,038
<i>Variable Interest Rate Debt</i>		
Debenture, due to 1995 at LIBOR(a)(c)	200,000	200,000
Bankers acceptances or prime due in 1987	258,000	—
Term bank loans due to 1987(a)	57,299	54,178
<i>Short-term Debt</i>		
Commercial paper, bankers acceptances and demand bank lines	302,081	258,681
	<u>1,304,583</u>	<u>1,057,009</u>

(table is continued on next page)

Genstar Financial Corporation

(table continued from previous page)

Fixed Interest Rate Debt

11 3/4% debentures due in 1995	75,000	—
5 3/4% to 13 3/4% notes and mortgages due to 1998(a)	53,935	47,831
Capitalized lease obligation, 11.9% equipment lease due to 1989	248	342

Variable Interest Rate Debt

Bankers acceptances and notes at prime or LIBOR due to 1987(a)	48,000	60,120
LIBOR due to 1991(a)	130,200	80,520
Bankers acceptances or prime notes due in 1988 and collateralized by common shares of a subsidiary	344,138	—

Short-term Debt

Commercial paper, bankers acceptances and demand bank lines, unsecured(a)	31,873	26,685
Prime to prime +3/4%, collateralized by notes receivable and mortgages	51,113	19,415
	734,507	234,913

*Canada Trustco Mortgage Company**Fixed Interest Rate Debt*

13 1/4% fully-hedged note due in 1990(b)	18,023	18,023
11% notes due to 1990, collateralized by assets of a subsidiary	10,580	12,097

Variable Interest Rate Debt

Prime due to 1988(a)	51,839	43,263
Prime +1/4%, collateralized by common shares of a subsidiary(a)	48,940	46,259
LIBOR due in 1991(a)	111,864	—
Mortgages due to 1995, at various rates	25,806	—

Short-term debt

Prime(a)	—	7,739
Prime to prime +1/2%, collateralized by notes receivable and mortgages of a subsidiary(a)	3,775	50,691
	270,827	178,072

<i>Debt</i>	\$2,309,917	\$1,469,994
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Long-term Debt

Fixed Interest Rate Debt	589,220	560,405
Variable Interest Rate Debt	1,276,086	484,340

<i>Short-term Debt</i>	1,865,306	1,044,745
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<i>Debt</i>	444,611	425,249
	\$2,309,917	\$1,469,994

(a) All or partly payable in U.S. dollars. (b) Payable in Swiss Francs. (c) Debenture secured by a floating charge on most of the Canadian assets of the company. Trust indentures pertaining to the debentures contain restrictive covenants covering the issuance of additional long-term debt and the payment of dividends. Under the most restrictive of these covenants, none of the company's retained earnings were restricted as to payment of common share dividends at December 31, 1985.

Installments due on long-term debt (excluding capital leases, see Note 18) required in the next five years are summarized as follows:

	1986	1987	1988	1989	1990
	(thousands of dollars)				
Genstar Corporation	7,632	363,890	53,604	194,187	39,551
Genstar Financial Corporation	7,802	77,347	384,605	26,574	39,490
Canada Trustco Mortgage Company	12,854	33,583	17,817	39,317	24,733
Total	\$ 28,288	\$474,820	\$456,026	\$260,078	\$103,774

12. Minority Interest

Minority interest consists of the following:

	1985	1984
	(thousands of dollars)	
Preferred shares of subsidiaries*	397,799	15,708
Common shares and retained earnings of subsidiaries and equity in joint ventures	38,634	20,201
	\$436,433	\$35,909

*Preferred shares of subsidiaries include \$300,000,000 of 9% first preferred shares of Genstar Financial Corporation, which are retractable at par at the holders' option on October 30, 1990, or annually thereafter.

Minority interest in income of subsidiaries, included in selling, general and administrative expenses, amounted to \$13,398,000, \$4,382,000 and \$3,216,000 in 1985, 1984 and 1983 respectively.

13. Preferred Shares

Shares Authorized

Preferred — 5,000,000 shares authorized without nominal or par value. Under the terms of the second preferred share issue agreements, no preferred shares ranking higher than the second preferred shares can be issued without the consent of the second preferred shareholders.

Second Preferred — 20,000,000 shares authorized without nominal or par value issuable in series and designated as follows:

- 1,000,000 Series A non-voting shares of the stated value of U.S. \$100 each bearing cumulative variable rate dividends.
- 439,181 Series B voting convertible shares of the stated value of U.S. \$24.40 each bearing cumulative dividends of U.S. \$1.68 each.
- 3,000,000 Series C voting convertible shares of the stated value of \$31.50 each bearing cumulative dividends of \$2.35 each.
- 4,000,000 Series D non-voting convertible shares of the stated value of \$25.00 each bearing cumulative floating rate dividends of the greater of 8% or 66.67% of the Canadian prime rate of interest and subject to a maximum rate of 14%.
- 4,000,000 Series E non-voting shares of the stated value of \$25.00 each bearing cumulative dividends of \$2.375 each.
- 2,000,000 Series SP voting convertible shares of stated values determined at date of issue bearing non-cumulative dividends at various rates.

	1985		1984		1983	
<i>Issued and Fully Paid</i>	Shares	Amount	Shares	Amount	Shares	Amount
<i>Redeemable</i>	(thousands)					
Preferred shares						
— Series A & B	38	775	38	775	—	—
Second preferred shares						
— Series A	1,000	120,000	1,000	120,000	1,000	120,000
— Series E	4,000	100,000	4,000	100,000	—	—
	5,038	\$220,775	5,038	\$220,775	1,000	\$120,000
<i>Convertible Redeemable</i>						
Preferred shares						
— Series A & B	—	—	—	—	39	781
— Series D	14	279	15	291	15	304
Second preferred shares						
— Series B	210	5,125	210	5,130	210	5,130
— Series C	2,955	93,073	2,976	93,754	2,976	93,754
— Series D	3,999	99,968	4,000	100,000	—	—
— Series SP	661	6,695	627	5,890	552	4,900
	7,839	\$205,140	7,828	\$205,065	3,792	\$104,869

<i>Convertible Redeemable Issued</i>	1985		1984		1983	
	Shares	Amount	Shares	Amount	Shares	Amount
			(thousands)			
Beginning of year	7,828	205,065	3,792	104,869	3,881	106,868
Issued in the year						
— Series D at \$25.00	—	—	4,000	100,000	—	—
— Series SP at U.S. \$9.80 to U.S. \$12.62	80	1,214	82	1,052	76	1,184
	7,908	206,279	7,874	205,921	3,957	108,052
Series A and B (expiration of conversion option)	—	—	(38)	(775)	—	—
Converted to common shares . .	(69)	(1,139)	(8)	(81)	(163)	(3,165)
Series SP redeemed	—	—	—	—	(2)	(18)
End of year	7,839	\$205,140	7,828	\$205,065	3,792	\$104,869

Preferred shares outstanding at December 31, 1985 consist of 457,978 Series A voting shares of the stated value of \$20.00 each bearing cumulative dividends at \$1.10 each; 1,205,970 Series B voting shares of the stated value of \$20.00 each bearing non-cumulative dividends at \$1.20 each; and 1,726,476 Series D voting convertible shares of the stated value of \$20.00 each bearing cumulative dividends of \$1.50 each.

The preferred shares are senior in rank to common and second preferred shares in respect to payment of dividends and distribution of assets. The Series A preferred shares are redeemable at \$20.00 per share, plus accrued dividends; Series B preferred shares are redeemable at \$20.00 per share. The Series D preferred shares are redeemable at \$24.00 per share plus accrued dividends and are convertible into common stock on the basis of two shares for each preferred share held up to June 30, 1987.

The Series A second preferred shares bear cumulative variable-rate dividends based on the London Inter-Bank Offered Rate. As of December 31, 1985, 1984 and 1983, the dividend rates were 5.37%, 6.38% and 6.10%, respectively. At the option of the holder, the company will purchase, at the stated value, a maximum of 330,000 shares on each of November 1,

1986 and 1987 and any balance outstanding on November 1, 1988.

Each Series B second preferred share is convertible into nine-tenths of a common share of the company and is redeemable at U.S. \$25.00 per share.

Each Series C second preferred share is convertible into one common share until March 12, 1986. In February 1986, the company announced its intention to redeem all of these shares on March 17, 1986 at \$33.10 a share. Since issue in 1980 a total of 45,305 shares has been converted to common shares.

Each Series D second preferred share is convertible at any time into .77 common share. These shares are retractable at the holder's option on March 31, 1990 at \$25.00 and annually thereafter on September 30 until 1994 and will be redeemable on or after September 30, 1994 at the same price. The company may at any time purchase for cancellation all or any number of these shares at a price not to exceed the highest price offered on any stock exchange on the date of purchase.

Each Series E second preferred share is retractable at the holder's option on November 15, 1990 and annually thereafter until 1994 at \$25.00 and will be redeemable on or after November 15, 1990 at the same price.

14. Common Shares and Contributed Surplus

Authorized—an unlimited number, without nominal or par value.

<i>Issued and Fully Paid</i>	1985		1984		1983	
	Shares	Amount	Shares	Amount	Shares	Amount
Common shares, beginning of year	31,738	304,334	31,359	295,786	30,878	288,223
Issued in the year						
—At \$31.63 pursuant to a public offering	5,000	158,125	—	—	—	—
—At \$10.00 to \$32.50 on the conversion of preferred shares	70	1,139	8	81	309	3,165
—At \$5.17 to \$35.32 under stock purchase plans and on the exercise of options	96	2,788	169	4,202	139	3,739
—At U.S. \$16.00 to U.S. \$41.00 in exchange for convertible debentures	75	1,620	202	4,265	33	659
Common shares, end of year . . .	36,979	468,006	31,738	304,334	31,359	295,786
Contributed surplus	—	8,437	—	8,552	—	8,552
	36,979	\$476,443	31,738	\$312,886	31,359	\$304,338

	1985	1984	1983
	(thousands of shares)		
<i>Common Shares Reserved for Issuance</i>			
Series D convertible preferred shares	28	29	30
Series B convertible second preferred shares	189	189	189
Series C convertible second preferred shares	2,955	2,976	2,976
Series D convertible second preferred shares	3,076	3,077	—
Series SP convertible second preferred shares	613	515	619
Convertible debentures	177	343	546
Exercise of options	157	199	156
	7,195	7,328	4,516

1965 Stock Option Plan

Options have been granted whereby common shares may be purchased by employees at a price not less than 90% of market on the grant date. Employees, the majority of whom were also officers and directors, held options for 45,000, 50,000, and 50,000 common shares at December 31, 1985, 1984 and 1983, respectively. No options were issued in 1985, 1984 or 1983. Option prices from inception of the plan have ranged from \$11.99 to \$15.75. Of the 45,000 options outstanding at December 31, 1985, 41,000 are currently exercisable.

1982 Stock Option Plan

Options have been granted whereby common shares may be purchased by employees at a price equal to 100% of market as of the date of grant. Employees, some of whom were also officers, held options for 178,790, 149,070 and 105,690 common shares at December 31, 1985, 1984 and 1983, respectively. The number of options granted during the years ended December 31, 1985, 1984 and 1983 were 59,000, 55,825 and 44,050, respectively. Option prices from inception of the plan have ranged from U.S. \$10.88 to U.S. \$25.57. Of the 178,790 options outstanding at December 31, 1985, 119,790 are currently exercisable.

Revised 1969 Stock Purchase Plan

Under the terms of the Revised 1969 Stock Purchase Plan, the Board of Directors or a committee thereof is authorized to issue up to 1,500,000 Common Shares to officers and employees of the Corporation and its subsidiaries at a price not less than 90% of the mean of the high and low selling prices of the Common Shares on the Toronto Stock Exchange. The Corporation may lend participants up to 99% of the purchase price at an interest rate of 5% per annum or such other rate as fixed by the Board of Directors. The shares are held as security by the trustee until full payment has been received. During 1985, 30,100 shares were issued.

1979 Stock Purchase Plan

Under the terms of the 1979 Stock Purchase Plan, Series SP second preferred shares were issued to employees at a price equal to the conversion value as of the date of grant. The SP shares are convertible into common shares pursuant to a conversion formula based on market value. Employees, some of whom were also officers and directors, held 661,475 Series SP second preferred shares at December 31, 1985. The participants pay U.S. \$5.48 to U.S. \$12.62 for the shares over a period of ten years together with interest currently set at 10% per annum. Non-cumulative dividends are paid at the annual rate of U.S. \$.66 to U.S. \$1.51 per share. During 1985, 80,150 shares were issued.

15. Net Income per Common Share

The weighted average number of shares used in calculating net income per common share under the Canadian and United States methods is as follows:

	1985	Canadian 1984	1983	1985	United States 1984	1983
<i>Basic and Primary</i>						
Weighted average common shares	33,118	31,473	31,221	33,118	31,473	31,221
Share equivalents pertaining to						
—conversion of preferred shares	—	—	—	6,865	3,633	3,730
—conversion of debt	—	—	—	315	494	553
—options and warrants . . .	—	—	—	38	18	39
	33,118	31,473	31,221	40,336	35,618	35,543
<i>Fully Diluted</i>						
Weighted average common shares	33,118	31,473	31,221	33,118	31,473	31,221
Shares pertaining to						
—conversion of preferred shares	6,931	3,701	3,793	6,931	3,701	3,793
—conversion of debt	315	494	553	315	494	553
—options and warrants . . .	50	20	44	50	20	44
	40,414	35,688	35,611	40,414	35,688	35,611

Basic and primary income per common share have been calculated after reducing net income by the preferred share dividend entitlement of \$33,400,000 in 1985, \$19,729,000 in 1984 and \$14,774,000 in 1983. Net income was increased for purposes of calculating primary income per common share by \$16,403,000 in 1985, \$8,435,000 in 1984 and \$8,417,000 in 1983, being the effect on income available for common shares of preferred dividends and

the after-tax interest assumed on convertible debt.

In determining fully diluted income per common share, net income has been reduced by \$17,344,000 in 1985, \$11,761,000 in 1984 and \$6,840,000 in 1983, being the dividends on outstanding non-convertible preferred shares, and increased by \$368,000 in 1985, \$489,000 in 1984 and \$505,000 in 1983, being the after-tax effect of interest assumed on convertible debt.

16. Income Taxes

Income before taxes and provision for income taxes by geographic area are as follows:

	1985	1984	1983
	(thousands of dollars)		
<i>Income (Loss) Before Income Taxes</i>			
Canada	9,670	(33,156)	(25,361)
United States	27,938	24,440	615
Other	138,919	140,769	134,386
	\$176,527	\$132,053	\$109,640
<i>Provision for Current Income Taxes</i>			
Canada	15,900	4,100	12,000
United States	17,400	4,700	37,400
Other	6,100	7,300	10,500
	39,400	16,100	59,900
<i>Provision for Deferred Income Taxes</i>			
Canada	(33,700)	(34,500)	(45,500)
United States	(400)	18,700	(7,800)
	(34,100)	(15,800)	(53,300)
<i>Total Provision for Income Taxes</i>	\$ 5,300	\$ 300	\$ 6,600

The components of the deferred tax provision are as follows:

Mortgage loan reserves	5,300	(800)	(1,500)
Additional depreciation (recapture) for tax purposes	(39,200)	28,900	1,800
Effect of losses on future taxable income	6,200	(55,100)	(59,100)
Portion of real estate and joint venture deferred income recognized for tax purposes	(4,000)	—	(2,000)
Amortization of excess tax value of assets available to reduce future taxable income	1,900	8,400	5,200
Deferred tax credits and other	(4,300)	2,800	2,300
	\$ (34,100)	\$ (15,800)	\$ (53,300)

The company's effective income tax rates are as follows:

Canadian and United States federal income tax rates	46.0%	46.0%	46.0%
Provincial and state income taxes, net of federal deductions	2.5	1.8	5.6
Lower taxes on foreign source income	(4.8)	(19.6)	(11.7)
Tax exempt securities income	(18.9)	(8.6)	(7.4)
Effects of investment incentives net of recapture	0.5	0.4	(3.5)
Reduced rate on capital gains and other income	(3.2)	(6.8)	(0.7)
Inter-unit interest income taxed at reduced rates	(28.7)	(30.8)	(32.6)
Effect of tax losses carried forward	(6.3)	3.6	10.2
Amortization of acquisition purchase price allocations	9.0	12.7	1.7
Minority interest in income of subsidiaries	2.9	1.5	1.3
Other	4.0	—	(2.9)
	3.0%	0.2%	6.0%

Deferred income taxes included in income taxes on the consolidated balance sheet were \$36,400,000 and \$50,000,000 at December 31, 1985 and 1984, respectively.

Losses of \$278,500,000 are available to reduce future United States taxable income in years up to and including 2000.

Tax recoveries have not been recorded on \$128,000,000 of these losses. In addition, as a result of a merger of certain subsidiaries in 1982, the tax value of United States assets exceeds book amounts by \$110,000,000 which is available to reduce future taxable income.

In 1985, United States operations generated taxable operating income which, combined with pension plan asset reversions and estimated tax audit settlements, reduced losses available to reduce future taxable income by \$88,700,000.

Income taxes have not been provided on undistributed income of certain foreign subsidiaries as such income is being reinvested in foreign operations. At December 31, 1985, \$258,000,000 of such undistributed income, if distributed as dividends, would be subject to income tax at 46%.

17. Unrealized Foreign Exchange

An analysis of the changes in the unrealized foreign exchange account follows:		1985	1984
		(thousands of dollars)	
Balance—beginning of year		79,600	34,300
Translation adjustments		19,300	45,300
Balance—end of year		\$98,900	\$79,600
Realized foreign exchange gain (loss) included in income		\$ 700	\$ (200)
Unrealized foreign exchange gain (loss) included in income		\$(1,900)	\$ 1,200
Canadian equivalent of one United States Dollar (year-end rate)		\$ 1.40	\$ 1.32

18. Leased Assets and Lease Commitments

The company leases equipment, manufacturing facilities and premises under both operating and capital leases. Fixed assets include the following amounts for leases that have been capitalized:

	1985	1984
	(thousands of dollars)	
Buildings	8,700	9,600
Machinery and equipment	31,600	35,700
	40,300	45,300
Less: accumulated depreciation	21,000	22,600
	\$19,300	\$22,700

Amortization of capital leases is included in interest and depreciation expense. Capitalized leases include facilities under lease-purchase option. The leases require annual payments equal to the servicing and redemption requirements on municipal bonds that financed the construction of the facilities. The company has the option to purchase the facilities for an amount sufficient to redeem all outstanding bonds, plus a premium, or for \$1 once all bonds have been redeemed.

19. Pension Plans

The company and its subsidiaries have a number of defined benefit pension plans in which salaried, commissioned and hourly employees are eligible to participate upon retirement after varying years of employment. The company's annual contributions to

Future minimum payments under capital leases and non-cancellable operating leases for fixed assets are as follows:

	Non-cancellable Operating Leases	Capital Leases
	(thousands of dollars)	
1986	61,600	2,500
1987	58,400	2,000
1988	53,900	2,100
1989	52,000	2,500
1990	49,000	13,900
Subsequent years' lease payments	103,700	13,500
Total lease payments	\$378,600	36,500
Imputed interest		7,124
Present value of minimum lease payments included in long-term debt		\$ 29,376

Rent expense for the years ended December 31, 1985, 1984 and 1983, was \$71,745,000, \$47,518,000 and \$44,284,000, respectively.

the plans are charged to income based on actuarial funding requirements.

Pension expense was \$2,500,000, \$1,000,000 and \$4,900,000 in 1985, 1984 and 1983, respectively. Pension plan expense in the United States

includes actuarially determined prior service costs being amortized over periods up to 30 years.

Actuarial valuations of the pension plans were made at December 31, 1984 or during 1985 using assumed returns on pension plan assets ranging from 5.5% to 8.5%. The results of these valuations for Canadian and United States plans are as follows:

Canadian Plans

Assets with a market value of \$244,343,000 were available in the Canadian plans, compared to the present value of accumulated plan benefits of \$225,846,000. The accumulated plan benefits calculation was based on the value of future accrued benefits at retirement and accordingly assumed 100% vesting of participants.

During 1985, the company withdrew, after obtaining regulatory approval, \$42,000,000 of the surplus attributable to company contributions existing in certain salaried Canadian pension plans as of April 30, 1985. This amount is being amortized straight-line over a period of 10 years as a reduction of pension expense, commencing in 1985.

20. Litigation

Asbestos

A subsidiary of the company has been named as one of a large number of defendants in numerous actions filed in various jurisdictions by individuals who seek damages based on alleged exposure to asbestos products allegedly manufactured and sold by such defendants (Personal Injury Claims).

The subsidiary and over thirty other companies (the Insured) have entered into an agreement (the Wellington Agreement), pursuant to which some but not all of the subsidiary's insurance carriers have settled with the subsidiary litigation with respect to insurance coverage concerning Personal Injury Claims. Pursuant to the Wellington Agreement, the subsidiary's signatory insurance carriers have agreed that their policies of insurance applicable to the subsidiary cover Personal Injury Claims against the subsidiary resulting from exposure to asbestos products on or before March 15, 1985. The Wellington Agreement establishes a facility which has the exclusive right to handle all claims made against the Insured in actions which allege damages for Personal Injury Claims. Costs in defending claims and indemnity payments will be allotted to the Insured pursuant to agreed upon percentages. An additional primary insurance carrier has agreed to afford the subsidiary coverage similar to that provided under the

United States Plans

U.S. salaried and hourly plans and a new salaried employee plan established as of January 1, 1985, had assets with a market value of \$50,186,000 compared with the present value of accumulated plan benefits of \$50,473,000. The accumulated plan benefit calculation was based upon the value of accrued benefits payable at retirement and included \$47,641,000 of currently vested benefits.

Effective December 31, 1984, the company restructured the pension plan covering most of its United States salaried employees. The existing plan was discontinued and the accumulated plan benefits of all participants became fully vested. Upon receipt of regulatory approval, the trustee of the plan discharged the plan's liability to participants for their accumulated benefits by the purchase of an annuity contract or by direct payments to participants. The residual assets of \$43,300,000 were then refunded to the company. This amount is being amortized straight-line to income over a period of 10 years as a reduction of pension expense, commencing in 1985.

Wellington Agreement.

The subsidiary, along with a number of other producers of asbestos-related products, has also been named as a defendant at December 31, 1985 in approximately 77 cases pending in various jurisdictions in which the plaintiffs, public and private entities (including school districts) and individuals, have alleged that the presence in buildings of certain materials containing asbestos allegedly manufactured or sold by such producers constitutes a health hazard (Building Claims). Various plaintiffs seek to represent different classes, and a federal court has certified a class consisting of all private and public schools in the U.S. Plaintiffs seek against all defendants very substantial amounts in compensatory damages and, in some instances, additional substantial amounts in exemplary damages. Some plaintiffs do not specify an amount of monetary damages but seek court orders compelling the defendants, at their cost, to remove asbestos products from the buildings or to otherwise make them safe, and, in some cases, to finance programs to monitor the health of persons exposed to asbestos products. It is not possible to ascertain what damage or relief plaintiffs seek specifically from the subsidiary. The subsidiary believes it has substantial and meritorious defenses to these actions.

Neither of the settlement agreements mentioned above settle the litigation or disputes between the subsidiary and its insurance carriers with respect to coverage for Building Claims. The subsidiary's primary insurance carriers are currently defending such actions pursuant to an interim agreement wherein the carriers have reserved the right to seek reimbursement from the subsidiary. In addition, the subsidiary's settlements with its carriers provide that the subsidiary will not be covered for exemplary damages where applicable law precludes such coverage and two excess insurance carriers have notified the subsidiary that they would deny coverage for such damages. While the issue of insurability of exemplary damages under general liability policies remains in flux and varies from jurisdiction to jurisdiction, the subsidiary intends to contest coverage denials should it become necessary.

Based on historical experience, the subsidiary anticipates that a significant number of additional Personal Injury Claims and Building Claims may be made against it in the future. The subsidiary no longer manufactures or sells any products containing asbestos. Although the amount of liability with respect to Personal Injury Claims and Building Claims cannot be ascertained, any resulting liability from pending Personal Injury Claims and Building Claims, in the opinion of management, will not materially

affect the company's financial position.

Abacus Cities

In 1981, legal proceedings against Guaranty Trust Company of Canada (Guaranty) and others were commenced in British Columbia and in Alberta, alleging, among other things, that Guaranty, as trustee under a trust indenture, acted improperly in appointing a receiver and manager of the assets of Abacus Cities Ltd., now in bankruptcy. A subsidiary of the company, one of the holders of debentures issued under the trust indenture, pursuant to the terms thereof, has agreed, along with other holders, to indemnify Guaranty on a proportionate basis (50%). Damages claimed against all defendants in the Alberta action total approximately \$300 million while the action in British Columbia is for an unspecified amount. Guaranty is defending these actions and has advised the subsidiary that Guaranty has a good defense to all such actions.

Other

The company and its subsidiaries are also parties to routine claims and suits brought against them in the ordinary course of business. In the opinion of management, all such routine claims and suits are adequately covered by insurance, or if not so covered, the results are not expected to materially affect the company's financial position.

21. Additional Information

Restatement

Consolidated financial data for all prior years have been restated to consolidate the accounts of Genstar Financial Corporation (GFC), a financial services subsidiary which was previously accounted for on the equity method. Consolidation of this subsidiary is preferable as a result of the increasing significance of GFC's operations to the company. This change has no effect on previously reported earnings or shareholders' equity.

Capitalized Interest Costs

Interest costs, related primarily to income property development and real estate joint ventures, are capitalized during the development period and charged against income as part of construction cost or depreciation. Had these interest costs been expensed as incurred, income before income taxes would have declined by \$4,300,000 in 1985, increased by \$20,800,000 in 1984 and remained unchanged in 1983.

Amortization of Purchase Price Premiums

Reported net income of subsidiaries is adjusted on consolidation to include amortization of the excess purchase price allocated to their financial assets and liabilities, properties and equipment, and intangible assets. Amortization of the excess purchase price will substantially occur by December 31, 1990 for financial assets and liabilities, over estimated remaining lives of 4 to 36 years for properties and equipment and over an average of 25 years straight-line for intangible assets. The effect of amortization of these allocations was to decrease reported net income of the subsidiaries by \$17,300,000 and \$10,600,000 and increase net income by \$6,500,000 for the years ended December 31, 1985, 1984 and 1983, respectively.

Mortgage Commitments

At December 31, 1985, outstanding commitments for mortgage advances amounted to \$853,312,000.

Foreign Exchange

Under Canadian Generally Accepted Accounting Principles (GAAP), translation fluctuations associated with long-term debt are amortized straight-line over the remaining term to maturity of the debt. Under U.S. GAAP, such fluctuations would be included in income for the period. In 1985, application of U.S. GAAP would have resulted in a reduction in net income of \$2,700,000. In prior periods, the differences between U.S. and Canadian GAAP have not been material.

Restrictions on Inter-Company Distributions

Loans, dividend payments and income distributions from certain subsidiaries and joint ventures are restricted by legislation, trust indentures and other agreements.

Canada Trustco Mortgage Company (Trustco) as a trust and loan institution, is regulated by various Canadian federal and provincial legislation. Regulatory approval would be required for any loan from Trustco to the company or affiliates of the company. The leverage of trust and loan companies is also regulated under the legislation, limiting the size of Trustco's deposits to 25 times its capital as defined by

statute. Under these regulations, at December 31, 1985, all of Trustco's post-acquisition retained earnings of \$97,000,000 were available for dividends.

Provisions of a subsidiary's loan agreement prohibit the payment of dividends by the subsidiary until December 31, 1986. The company's share of undistributed earnings of the subsidiary was \$25,100,000 at December 31, 1985.

Trust indentures relating to \$47,600,000 of the long-term debt of a subsidiary require approval of the trustees for dividend distributions to the company in excess of defined amounts and loans to the company other than in the normal course of business. No consolidated retained earnings are restricted under such provisions and all but \$261,000,000 of the subsidiary's net assets could be distributed without the trustee's approval.

Joint venture agreements generally require the approval of all partners prior to the distribution of income or granting of loans to the partners. At December 31, 1985, \$27,700,000 of consolidated retained earnings represent unremitted income of joint ventures.

22. Summarized Quarterly Financial Data (Unaudited)

	Three Months Ended				Year Ended
	March 31	June 30	September 30	December 31	December 31
1985	(thousands of dollars)				
Revenues	\$723,522	\$925,270	\$1,065,902	\$1,317,161	\$4,031,855
Operating income	38,175	101,082	113,646	135,307	388,210
Net income	5,269	50,714	53,669	61,575	171,227
Net income per common share	(dollars)				
—basic	\$ (0.09)	\$ 1.32	\$ 1.41	\$ 1.52	\$ 4.16
—primary	(0.09)	1.30	1.26	1.35	3.82
Market price: The Toronto Stock Exchange	(dollars)				
—high	\$ 32.00	\$ 32.50	\$ 35.38	\$ 33.75	\$ 35.38
—low	26.13	27.38	27.63	26.00	26.00
—closing price, December 31					33.25
Market price: The New York Stock Exchange	(United States dollars)				
—high	\$ 23.88	\$ 23.88	\$ 26.13	\$ 24.25	\$ 26.13
—low	19.75	19.88	20.38	19.00	19.00
—closing price, December 31					23.88
Trading volume on exchanges in	(thousands of shares)				
—Canada	3,763	2,460	4,529	6,371	17,123
—United States	1,996	1,514	1,554	2,324	7,388
—other exchanges	360	151	160	317	988

	Three Months Ended				Year Ended
	March 31	June 30	September 30	December 31	December 31
1984	(thousands of dollars)				
Revenues	\$588,233	\$794,663	\$788,623	\$887,812	\$3,059,331
Operating income	24,737	95,336	93,466	115,059	328,598
Net income	(3,809)	44,464	44,770	46,328	131,753
Net income per common share	(dollars)				
—basic	\$ (0.25)	\$ 1.29	\$ 1.29	\$ 1.23	\$ 3.56
—primary	(0.25)	1.27	1.21	1.15	3.38
Market price: The Toronto Stock Exchange	(dollars)				
—high	\$ 31.50	\$ 24.38	\$ 26.88	\$ 28.50	\$ 31.50
—low	23.25	19.38	19.75	23.50	19.38
—closing price, December 31					26.75
Market price: The New York Stock Exchange	(United States dollars)				
—high	\$ 25.25	\$ 19.13	\$ 20.38	\$ 21.50	\$ 25.25
—low	18.63	15.00	15.00	17.88	15.00
—closing price, December 31					20.25
Trading volume on exchanges in	(thousands of shares)				
—Canada	1,911	1,537	2,357	2,048	7,853
—United States	2,334	2,094	2,285	2,475	9,188

23. Supplementary Information on Inflation and Changing Prices (Unaudited)

	1985	1984	1983	1982	1981
Average Canadian Consumer Price Index (1981=100 per Statistics Canada)	127.1	122.2	117.2	110.8	100.0
Revenues (millions of dollars)					
—as reported	\$ 4,032	\$ 3,059	\$ 2,872	\$ 2,802	\$ 2,629
—in constant dollars	4,032	3,179	3,115	3,214	3,341
Dividends per common share					
—as reported	\$ 1.10	\$ 0.85	\$ 0.65	\$ 0.90	\$ 1.80
—in constant dollars	1.10	0.88	0.70	1.03	2.29
Market price per common share at year-end*					
—historical amount	\$ 33.25	\$ 26.75	\$ 31.00	\$ 20.25	\$ 23.38
—in constant dollars	32.63	27.37	32.94	22.50	28.38

*Toronto Stock Exchange

Overview

The average Consumer Price Index (CPI) in Canada increased by 4.0% in 1985, compared to increases of 4.3% in 1984 and 5.8% in 1983. In order to provide financial statement users with information as to the effects of inflation on an enterprise, guidelines for the calculation and disclosure of inflation-adjusted information have been issued by both the Canadian Institute of Chartered Accountants (CICA) and the Financial Accounting Standards Board, United States (FASB). Both the CICA and FASB prescribe a "Current Cost" computation to measure the effects of specific inflation on a company's particular busi-

nesses and the use of the CPI to calculate amounts of equivalent purchasing power by adjusting for the effects of general inflation.

The measurements concentrate on the amount of inventories and fixed assets necessary to maintain the "Operating Capability" of an entity and the effects which these amounts, restated for the effects of inflation, would have on its operations and financing. These computations as explained hereunder, involve estimates and subjective judgments which greatly reduce comparability to actual operating conditions. Caution should be exercised in its interpretation.

Current Cost Inflation

The prescribed method to approximate specific inflation is to determine today's cost to replace assets with the same type as those produced or utilized by the company. The methods used to determine this theoretical cost vary depending on the industry and type of asset.

In the case of Genstar, the current cost of land and manufacturing inventories and the related cost of sales have been determined by applying recent purchase prices and standard costs to units on hand or by the use of internal and external indices for changes in costs.

The current cost of fixed assets of the company's operations has been determined using recent construction and purchase costs or internal, external and trade association indices. If new asset prices have been used, accumulated depreciation has been deducted for the expired useful life. Depreciation was based on average 1985 current cost and historic estimated useful lives.

Monetary assets and liabilities are restated only for the current year's general inflation. The assets and liabilities of the company's financial services operations are primarily of a monetary nature.

General Inflation

The amount disclosed as "Current year adjustment for specific inflation in excess of general inflation" is the difference between the effects of general inflation and the effects of change in specific prices during the year. The Canadian CPI has been used as the measure of general inflation and has been applied to restate items from historical cost to equivalent average 1985 dollars. Foreign currency current cost amounts were translated to Canadian dollars and then restated into average 1985 dollars. A resulting translation adjustment represents the portion of the current year's increase in current cost that is due to the change in exchange rates between the foreign and Canadian currencies.

Purchasing Power Gain/Financing Adjustment

As the purchasing power of the dollar declines, so does the true economic cost to repay liabilities. The company's net monetary liabilities have been adjusted to average 1985 dollars using the Canadian CPI. The resultant reduction in liabilities, assuming repayment

in December 31, 1985 dollars, is the purchasing power gain. This gain can be viewed as the purchasing power decrease accruing to the lender of capital and results from using borrowed funds as a hedge against the effects of inflation on related assets.

The Canadian inflation accounting guidelines identify another allocation of the effects of inflation between the lender of capital and the common shareholder in addition to the purchasing power gain. In periods of increasing prices, the company will require additional capital to offset the effect of increases in the specific prices of inventories and fixed assets and this additional capital is referred to as that necessary to maintain the operating capability of the enterprise.

This capital is provided by a combination of shareholders' investments and borrowed funds. The financing adjustment represents the increase in the current cost amounts of inventories and fixed assets which theoretically would be financed by debt given the company's average debt to equity structure for the year. Using debt to finance these assets reduces the amount of the net increase in current cost that theoretically would be deducted from income attributable to shareholders.

Net Assets

The company's total assets less liabilities have been adjusted to average 1985 dollars and for the current cost/constant dollar differential of inventories and fixed assets to produce a current cost equivalent.

The resulting current cost net assets are considerably greater than the corresponding historical cost amounts. These adjusted amounts should be viewed as estimates of capital employed on which a fair return must be earned and not as amounts contributed by shareholders or accumulated and retained from previous earnings.

Inflation Adjusted Results

The data presented below restates certain balance sheet and income statement amounts for the impact of inflation using the methods prescribed by the CICA and FASB. Inflation adjusted 1985 net income and earnings per share after providing for preferred dividends does not include the holding gain resulting from the decline in purchasing power of net liabilities of \$124,500,000 or \$3.76 per common share or the Canadian "financing adjustment" of \$92,000,000 or \$2.78 per common share. These two amounts

represented that portion of the cost of inflation borne by lenders of capital rather than by the company's shareholders. In our view, these amounts represent a reduction in financing costs, and should be netted against interest expense to determine inflation adjusted financing costs. In addition, inflation adjusted results as shown do not consider the reduction in income tax expense that would result from current cost adjustments to cost of sales and depreciation expense. Net income would be higher than historic net income for the period 1983-85 if the effects of the holding gain and the financing adjustment on total financing costs and the income tax effect of current cost adjustments were included in the inflation adjusted results.

Inventories and fixed assets on a current cost basis was \$2,573,400,000 in 1985, \$2,717,900,000 in 1984, and \$2,476,100,000 in 1983. These current

cost amounts are 43%, 52% and 56% higher than their respective historical cost amounts. The current cost of these assets did not increase in proportion to the general inflation rate in 1983. The current cost in proportion to the general inflation rate increased \$97,100,000 in 1984 and decreased \$25,800,000 in 1985. The decrease is primarily related to sales of development land, which carried a high current cost basis.

Net assets on a current cost basis were the equivalent of 149% of their historical value as at December 31, 1985, as opposed to 171% and 205% as at December 31, 1984 and 1983, respectively. This decrease reflects the company's increasing proportionate investment in assets other than inventories and fixed assets, which are not restated to reflect current cost under prescribed inflation accounting methods.

*Selected 1985, 1984 and 1983 Financial Data
Adjusted for the Effects of Changing Prices*

Net Income

In average 1985 dollars	171.2	137.1	117.7
Current cost adjustments:			
Cost of revenues	89.1	50.2	26.8
Depreciation	73.0	73.5	67.9

1985 1984* 1983*
(millions of dollars except per share amounts)

	\$ 9.1	\$ 13.4	\$ 23.0
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Gain from Decline in Purchasing Power of Net Liabilities

In average 1985 dollars	\$ 124.5	\$ 68.9	\$ 83.1
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Financing Adjustment

Current cost income adjustment attributable to debt	\$ 92.0	\$ 58.6	\$ 46.7
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Net Income (Loss) Per Common Share

In average 1985 dollars	\$ (0.74)	\$ (0.22)	\$ 0.22
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Inventories and Fixed Assets

As reported	1,798.9	1,791.7	1,587.1
Adjustment for general inflation	732.0	746.7	927.9
Current year adjustment for specific inflation in excess of (less than) general inflation:			
Current cost	(25.8)	97.1	(80.1)
Foreign exchange translation	68.3	82.4	41.2

	\$ 124.5	\$ 68.9	\$ 83.1
	\$ 92.0	\$ 58.6	\$ 46.7
	\$ (0.74)	\$ (0.22)	\$ 0.22
	1,798.9	1,791.7	1,587.1
	732.0	746.7	927.9
	(25.8)	97.1	(80.1)
	68.3	82.4	41.2
	\$2,573.4	\$2,717.9	\$2,476.1

Financing Adjustment

Theoretical debt financing of annual change in current cost of inventories and fixed assets	\$ (82.0)	\$ 114.6	\$ (146.4)
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Net Assets

In average 1985 dollars	\$2,326.8	\$2,193.7	\$1,786.3
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	\$ 124.5	\$ 68.9	\$ 83.1
	\$ 92.0	\$ 58.6	\$ 46.7
	\$ (0.74)	\$ (0.22)	\$ 0.22
	1,798.9	1,791.7	1,587.1
	732.0	746.7	927.9
	(25.8)	97.1	(80.1)
	68.3	82.4	41.2
	\$2,573.4	\$2,717.9	\$2,476.1
	\$ (82.0)	\$ 114.6	\$ (146.4)
	\$2,326.8	\$2,193.7	\$1,786.3

*For the purposes of comparison 1984 and 1983 amounts have been increased for the change in the average CPI from those years to 1985. This restates 1984 and 1983 amounts to the purchasing power equivalent of average 1985 dollars.

Directors and Officers

Directors

*Charles de Bar
Corporate Director

James W. Burns
President
Power Corporation
of Canada
(Holding Company)

**Alan F. Campney
President
Vanley Agencies Ltd.
(Investment and Services
Company)

**Frank S. Capon
Consultant

August A. Franck
Corporate Director

René Lamy
Governor
Société Générale
de Belgique, S.A.
(Portfolio Company)

Walter F. Light
Retired Chairman
of the Board and
Chief Executive Officer
Northern Telecom Limited
(Telecommunications
Equipment Manufacturer)

The Honorable
Peter Lougheed, P.C., Q.C.
Corporate Director

*Angus A. MacNaughton
Chairman and
Chief Executive Officer
Genstar Corporation

*W. Earle McLaughlin
Corporate Director
Frederick W. Mielke, Jr.
Chairman of the Board and
Chief Executive Officer
Pacific Gas & Electric
Company
(Public Utility)

**Yves du Parc
Managing Director
Mines, Minerais et Métaux,
S.A. and President of
Norore Corp.
(International Trading
Companies)

Saul Simkin
Chairman of the Board
Kins Management Limited
(Consultants)

*Ross J. Turner
President and
Chief Executive Officer
Genstar Corporation

Stephen R. Volk
Partner
Shearman & Sterling
(Attorneys at Law)

*Member of the Executive Committee

**Member of the Audit Committee

Officers

Angus A. MacNaughton
Chairman and
Chief Executive Officer

Ross J. Turner
President and
Chief Executive Officer

Walter S. Bannister
Executive Vice President

J. Leonard Holman
Executive Vice President

George F. Michals
Executive Vice President

John A. West
Executive Vice President

J. Ernest Hartz, Jr.
Senior Vice President
and General Counsel

Paul J. Kehoe
Senior Vice President

Richard D. Paterson
Senior Vice President and
Chief Financial Officer

John H. Chase
Vice President

J. Herbert Gaul, Jr.
Vice President and
Treasurer

C.J. Byrne McNamara
Vice President and
Controller

Rodrick K. MacKinnon
Secretary

